



ELKO GRUPA AS

Consolidated Financial Statements

For the year ended 31 December 2014

Structure

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General information

| | |
|---|--|
| Group name | ELKO GRUPA AS |
| Legal status of the Group | Joint Stock Company |
| Unified registration number, place and date of registration | 000 312 956 Riga, 14 May, 1993 |
| | Re-registration in Commercial register 2 December, 2003 with re-registration number 4 000 312 956 4 |
| Registered office | 4 Toma street Riga LV-1003 Latvia |
| Shareholders | Ashington Business Inc. Limited (1,360,235 shares), United Kingdom Solsbury Inventions Limited (1,355,383 shares), United Kingdom Amber Trust II S.C.A. (1,214,898 shares), Luxembourg Eurotrail SIA (753,833 shares), Latvia Whitebarn SIA (753,833 shares), Latvia KRM Serviss SIA (737,319 shares), Latvia Solo Investīcijas IT SIA (701,289 shares), Latvia |
| Council Members | Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member |
| Board Members | Egons Mednis – Chairman of the Board with powers to represent the Group individually, President Jānis Casno – Board Member with representation powers jointly with another Board Member, Chief Executive Officer till 06.01.2015 Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Financial Officer till 06.01.2015 Egons Bušs – Board Member with representation powers jointly with another Board Member, Chief Information Technology Officer Aleksandrs Orlovs – Board Member with representation power jointly with another Board Member, Distribution Director Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Executive Officer from 06.01.2015 Māris Būmanis – Board Member with representation powers jointly with another Board Member, Chief Financial Officer from 06.01.2015 |
| Reporting year | 1 January – 31 December, 2014 |

MANAGEMENT REPORT

Business activities

AS ELKO Grupa (hereinafter – the Company) is one of the largest distributors of IT products in the Central and Eastern Europe. The Company's core business activity is wholesale distribution of IT products such as smartphones and tablets, computer desktop components and peripherals, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO GRUPA subsidiaries and cooperation partners. ELKO GRUPA represents a broad range of vendors from all over the world, including Lenovo, Intel, Apple, Seagate, Western Digital, Asus, Acer, Samsung and other global and local vendors.

The key to the success of AS ELKO Grupa as the parent company is the long-term strategy for cooperation with vendors developed over the years, centralized purchase system, functionality of business process management and financial management.

Financial analysis

Despite challenging geopolitical situation in CIS region, the Company in 2014 reached record sales of 973 million EUR, which was 10% increase comparing to 2013. The increase mainly relates to the Company's ability to continuously expand its product portfolio and geographical reach at the same time maintaining effective and cost efficient distribution channels.

Gross profit for 2014 was 30.3 million EUR, which was 18% decrease comparing to 2013. The decrease in gross margin is mainly related to considerable rapid devaluation of Russian ruble and Ukrainian hryvnia in Q4 2014.

The net result of AS ELKO Grupa 2014 was negative in amount of 5.4 million EUR comparing to profit of 13.0 million EUR in 2013. The main reason for negative results were considerable devaluation of Russian ruble and Ukrainian hryvnia that had considerable impact on gross margin as well as considerable losses from currency exchange fluctuation in amount of 9.0 million EUR.

Significant events during reporting period

In 2014 the Company has become the official distributor and/or has expanded their business partnerships with well-known IT companies, such as: *Toshiba, Microsoft, Sandisk, Dell, Opzoon and others.*

AS ELKO GRUPA structure

AS ELKO Grupa has shareholding in fourteen subsidiaries: ELKO Latvija SIA, 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, Pruvia SIA and ELKO Kazakhstan Limited.

AS ELKO Grupa has majority shareholding in all of the subsidiaries except for WESTech CZ s.r.o., where the Company hold 26%.

Financial risk management

Multi-currency risk

AS ELKO Grupa operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, Ukrainian hryvnia and Russian ruble. 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 from vendors is predominantly done in US dollars and the sales from the Company to subsidiaries are done in US dollars. The sales to customers in Latvia, Estonia and Lithuania are carried out in the respective local currencies.

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 – EUR. 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

AS ELKO Grupa uses current borrowing for financing part of its current assets. All the borrowings are at floating rate that exposes the Company to interest rate risk.

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 and 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

AS ELKO Grupa 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 and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis decreases 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 for compensation for the price reduction in case of decline of the market prices for the goods at the Company's warehouse or that are already ordered.

Liquidity risk

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

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 is the increase in demand in the markets where the Company operates as well as the Company's continuous efforts on development of the offered product portfolio and maintenance of efficient and cost effective distribution channels.

The Company continuously improves its cost control and working capital management procedures ensuring higher returns on equity.

The Company believes that the above-mentioned factors will help to sustain continuous growth also in the coming years, ensuring positive results of our operations.

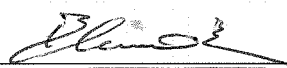


Egons Mednis
Chairman of the Board,
President
Riga, 12 August, 2015

Consolidated statement of comprehensive income

| | Note | 2014 EUR '000 | 2013 EUR '000 |
|---|------|------------------|------------------|
| Sale of goods | 6; 7 | 972,678 | 886,029 |
| Cost of sales | 8 | (942,411) | (850,136) |
| Gross profit | | 30,267 | 35,893 |
| Other operating income | 9.1 | 178 | 47 |
| Selling and distribution costs | 8 | (4,279) | (3,657) |
| Administrative expenses | 8 | (15,157) | (13,231) |
| Other operating expenses | 9.2 | (9,177) | (464) |
| Operating profit | | 1,832 | 18,588 |
| Finance income | | 362 | 67 |
| Finance costs | | (6,048) | (3,702) |
| Finance income/ (costs) – net | 10 | (5,686) | (3,635) |
| Profit before tax from continuing operations | | (3,854) | 14,953 |
| Income tax expense | 12 | (1,546) | (1,965) |
| Profit for the year from continuing operations | | (5,400) | 12,988 |
| Attributable to: | | | |
| Equity holders of the parent | | (6,287) | 9,246 |
| Non-controlling interests | | 887 | 3,742 |
| | | (5,400) | 12,988 |
| Basic and diluted earnings per ordinary share (EUR per share) | 13 | (0.91) | 1.34 |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods | | | |
| Exchange differences on translation of foreign operations | | 2,618 | (1,061) |
| Total comprehensive income to be reclassified to profit or loss in subsequent periods for the year | | (2,782) | 11,927 |
| Attributable to: | | | |
| Equity holders of the Parent Company | | (3,998) | 8,302 |
| Non-controlling interests | | 1,216 | 3,625 |
| | | (2,782) | 11,927 |


The notes on pages 10 to 44 are an integral part of these consolidated financial statements.


 Egons Mednis
 Chairman of the Board
 12 August 2015

Consolidated statement of financial position

| | Note | 31.12.2014 EUR '000 | 31.12.2013 EUR '000 |
|--|------|------------------------|------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 15 | 115 | 70 |
| Property, plant and equipment | 16 | 933 | 891 |
| Long term loans | 17 | 1,647 | 1,493 |
| | | 2,695 | 2,454 |
| Current assets | | | |
| Inventories | 18 | 195,695 | 153,960 |
| Current income tax receivable | 12 | 581 | 477 |
| Trade and other receivables | 19 | 92,048 | 108,730 |
| Prepaid expenses | | 234 | 222 |
| Derivative financial instruments | 25 | 305 | - |
| Cash deposits | 20 | 391 | 349 |
| Cash and cash equivalents | 20 | 31,462 | 22,144 |
| | | 320,716 | 285,882 |
| Total assets | | 323,411 | 288,336 |
| EQUITY | | | |
| Issued capital | 21 | 9,785 | 9,785 |
| Share premium | 21 | 4,974 | 4,974 |
| Translation reserve | 21 | 771 | (1,518) |
| Retained earnings | | 49,125 | 59,076 |
| Equity attributable to equity holders of the Parent Company | | 64,655 | 72,317 |
| Non-controlling interests | | 7,078 | 6,978 |
| Total equity | | 71,733 | 79,295 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 22 | 58 | 838 |
| | | 58 | 838 |
| Current liabilities | | | |
| Trade and other payables | 23 | 188,331 | 125,078 |
| Interest-bearing loans and borrowings | 22 | 61,595 | 82,720 |
| Income tax payable | 12 | 878 | 273 |
| Provisions | 24 | 134 | 132 |
| Derivative financial instruments | 25 | 682 | - |
| | | 251,620 | 208,203 |
| Total liabilities | | 251,678 | 209,041 |
| Total equity and liabilities | | 323,411 | 288,336 |

The notes on pages 10 to 44 are an integral part of these consolidated financial statements.

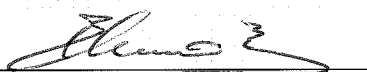

 Egons Mednis
 Chairman of the Board
 12 August 2015

Consolidated statement of changes in equity

| | Attributable to equity holders of the Parent Company | | | | Total Non- controlling interest | Total equity |
|--|---|--------------|----------------|-----------------|--|-----------------|
| | Issued | Share | Retained | Transla- | | |
| | capital | premium | earnings | tion reserve | | |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Balance at 1 January 2013 | 9,785 | 4,974 | 57,414 | (573) | 71,600 | 75,009 |
| Other comprehensive income | - | - | - | (945) | (945) | (1,061) |
| Profit for the year | - | - | 9,246 | - | 9,246 | 12,988 |
| Total comprehensive income for 2013 | - | - | 9,246 | (945) | 8,301 | 11,927 |
| Dividend | - | - | (7,584) | - | (7,584) | (7,641) |
| Balance at 31 December 2013 | 9,785 | 4,974 | 59,076 | (1,518) | 72,317 | 79,295 |
| Balance at 1 January 2014 | 9,785 | 4,974 | 59,076 | (1,518) | 72,317 | 79,295 |
| Other comprehensive income | - | - | - | 2,289 | 2,289 | 2,618 |
| Profit for the year | - | - | (6,287) | - | (6,287) | (5,400) |
| Total comprehensive income for 2014 | - | - | (6,287) | 2,289 | (3,998) | (2,782) |
| Dividend | - | - | (3,664) | - | (3,664) | (4,780) |
| Balance at 31 December 2014 | 9,785 | 4,974 | 49,125 | 771 | 64,655 | 71,733 |

Retained earnings are EUR 49,125 thousand (2013: EUR 59,076 thousand), of which EUR 63 thousand (2013: EUR 61 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 10 to 44 are an integral part of these consolidated financial statements.



Egons Mednis
Chairman of the Board
12 August 2015

Consolidated statement of cash flows

| | Note | 2014 EUR'000 | 2013 EUR'000 |
|---|-----------|-----------------|-----------------|
| Operating activities | | | |
| Profit before tax from continuing operations | | (3,854) | 14,953 |
| Non-cash adjustments to reconcile profit before tax to net cash flows | | | |
| Depreciation of property, plant and equipment | 16 | 409 | 403 |
| Amortisation of intangible assets | 15 | 23 | 28 |
| Finance income | 10 | (362) | (67) |
| Finance costs | 10 | 6,048 | 3,702 |
| Fair value losses on derivative financial instruments, net | 25 | 377 | - |
| Movements in provisions and allowances | | 2 | 4 |
| Working capital adjustments: | | | |
| (Increase)/Decrease in trade and other receivables and prepaid expenses | | 16,670 | (11,531) |
| (Increase) in inventories | | (41,735) | (16,152) |
| Increase/(Decrease) in trade and other payables | | 65,271 | 17,328 |
| Interest received | | 362 | 67 |
| Income tax paid | | (1,045) | (2,373) |
| Net cash flows (used in) / from operating activities | | 42,166 | 6,362 |
| Investing activities | | | |
| Proceeds from sale of property, plant and equity | | 26 | 1 |
| Purchases of property, plant and equipment | 16 | (497) | (438) |
| Purchases of intangible assets | 15 | (72) | (16) |
| Acquisition of non-controlling interests | | - | - |
| Loans issued | | - | (1,402) |
| Loans repaid | | 29 | - |
| Proceeds from cash deposits | 20 | - | (60) |
| Net cash flows (used in) / from investing activities | | (514) | (1,915) |
| Financing activities | | | |
| Bank credit lines received | | 5,203 | 23,578 |
| Repayments of bank credit lines | | (27,108) | - |
| Non-controlling interest in established subsidiary | | - | - |
| Interest paid | | (6,048) | (3,702) |
| Dividends paid to equity holders of the parent | | (3,265) | (9,428) |
| Dividends paid to non-controlling interests | | (1,116) | (57) |
| Net cash flows (used in) / from financing activities | | (32,334) | 10,391 |
| Net increase/(decrease) in cash and cash equivalents | | 9,318 | 14,838 |
| Cash and cash equivalents at beginning of the year | | 22,144 | 7,306 |
| Cash and cash equivalents at end of the year | 20 | 31,462 | 22,144 |

The notes on pages 10 to 44 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

ELKO Grupa AS ("the Parent Company") and its subsidiaries (together "the Group") principal activity is wholesale distribution of computer desktop components, notebooks, monitors, peripherals, multimedia, consumer and solution products, using the wide network of the Group companies and cooperation partners, representing a broad range of vendors of these products all over the world. The selection includes products from a range of vendors, including Acer, Intel, Western Digital, Seagate, AMD, Hitachi, Sony, Lenovo, Microsoft, Asus, Giga-Byte, Samsung, Toshiba and others.

The Parent Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Toma str, 4, Riga, LV-1003, Latvia. These consolidated financial statements have been prepared for issue by the Management on 29 May 2015 and signed on its behalf by the Chairman of the Board Egons Mednis.

The financial statements are subject to the approval of the shareholders in general meeting.

The Parent Company has the following participating interests in its subsidiaries:

| Name | Country | Participating interest in share capital of subsidiaries | |
|---------------------------------------|----------------|---|------------|
| | | 31.12.2014 | 31.12.2013 |
| | | % | % |
| Alma Limited | Russia | 100% | 100% |
| ELKO Eesti AS | Estonia | 100% | 100% |
| ELKO Kaunas UAB | Lithuania | 100% | 100% |
| ELKO Latvija SIA | Latvia | 100% | 100% |
| ELKO Marketing Limited | Cyprus | 100% | 100% |
| ELKO Trading Switzerland AG | Switzerland | 100% | 100% |
| ELKOTech Romania SA | Romania | 100% | 100% |
| ELKOTEX d.o.o. | Slovenia | 51% | 51% |
| WESTech s.r.o. | Slovakia | 51% | 51% |
| ELKO Mobile Limited | Cyprus | 51% | 51% |
| ELKO Kazakhstan Limited ¹⁾ | Kazakhstan | 100% | 100% |
| ELKO Ukraina TOB ²⁾ | Ukraine | 100% | - |
| PRUVIA SIA ²⁾ | Latvia | 100% | - |
| Westech CZ s.r.o. ³⁾ | Czech Republic | 26% | - |

¹⁾ In 2013 the Group established new entity ELKO Kazakhstan Limited.

²⁾ In 2014 the Group established new entities ELKO Ukraina TOB and PRUVIA SIA.

³⁾ In 2014 the Westech s.r.o. established new entity Westech CZ s.r.o.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation**Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in EUR and all values are rounded to the nearest thousand (€'000), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Notes to the consolidated financial statements (continued)

Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.2 Foreign currency translation

The Group's consolidated financial statements are presented in EUR. Parent Company's functional currency is U.S. dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using EUR for presenting the financial statements.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective EUR currency spot rates prevailing at the date when the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the EUR currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the statement of comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed, at which time, they are recognised as gain or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated into the EUR currency using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Group companies

On consolidation the assets and liabilities of foreign operations are translated into EUR at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised as gain or loss.

2.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Notes to the consolidated financial statements (continued)

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

The Group generates income from providing marketing and transport agency services. These services are provided based on agreed time and material costs incurred or as a fixed-price contract. Revenue from fixed-price contracts for delivering transportation services is generally recognised by reference to the stage of completion of the service, revenue from time and material contracts is recognized at contractual rates as direct expenses are incurred.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividends.

Other income

Income from penalties charged to clients is recognized at the moment of receipt. Penalties represent mostly charges to customers for late payments.

2.4 Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the consolidated financial statements (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The corporate income tax rates in the major jurisdiction where the Company is operating are:

Latvia – 15%
 Russia – 20%
 Ukraine – 18%
 Slovakia – 22%
 Romania – 16%
 Cyprus – 12.5%
 Switzerland – 13-25%

Tax loss carry forward periods

Latvia – indefinite
 Russia – 10 years
 Ukraine – indefinite
 Slovakia – 4 years
 Romania – 5 years
 Cyprus – 5 years
 Switzerland – 7 years

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the consolidated financial statements (continued)

2.5 Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and loans.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment for receivables are recognised in the statement of comprehensive income in other operating expenses.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to the consolidated financial statements (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

Notes to the consolidated financial statements (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|--------------|-----------|
| IT equipment | 2 years |
| Other | 4-5 years |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Notes to the consolidated financial statements (continued)

2.7 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases that transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2014 and 2013 the Group had no borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

2.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed at 5 years.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the the statement of comprehensive income when the asset is derecognised.

Notes to the consolidated financial statements (continued)

2.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of goods comprises acquisition costs, additional expenses related to transportation, import duties, duties for environmental protection and insurance as well as any discounts and allowances granted by vendors. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Estimated selling price is based upon an aging analysis of the inventory on hand, technological obsolescence, the nature of vendor relations and assumptions about future demand. The inventories are recognized at the moment when the invoice by the vendor is issued and the liability to the vendor is recognized.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in statement of comprehensive income.

2.12 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

2.13 Share capital and dividend distribution

Ordinary shares are classified as equity. The Parent Company has issued only ordinary shares.

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Group's financial statements in the period, in which the dividends are approved by the Parent Company's shareholders.

Notes to the consolidated financial statements (continued)

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Warranties

The Group's vendors generally warrant the products distributed by the Group and allow returning defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs occur along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and is periodically adjusted to reflect actual experience.

2.16 Vendor programs

The Group receives funds from vendors in a form of credit notes for price protection, product rebates, marketing and other product promotions. The credit notes for price protection are booked as decrease of the cost value of the inventory. The credit notes for rebates are recognized directly in the statement of comprehensive income as decrease of cost of sales. The credit notes for marketing and other product promotion are recognized as other revenue. Some of these programs may extend over one or more reporting periods. Rebates or other vendor incentives are recognized as earned based on sales of respective products or as services are provided in accordance with the terms of the related program.

2.17 Pension obligations

The Group companies do not operate any pension plans other than those required by the applicable legislations in the respective countries. The Group companies pay social security contributions to the state social security funds (the Funds) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements.

A defined contribution plan is a plan under which Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

Notes to the consolidated financial statements (continued)

2.18 Going concern

The Group incurred a loss of EUR 2.8 million in the reporting year. As at 31 December 2014, the Group's current assets exceeded its current liabilities by EUR 69.10 million, equity as at year end is positive EUR 72 million.

According to the financial covenants in the syndicate loan agreement with AS SEB bank and Nordea Bank Finland plc the Company has to maintain certain financial ratios. As at 31 December 2014 the Company had not complied with financial covenant on profitability to debt ratio as the result was in breach on the syndicate loan agreement. Also as at 31 March 2015 the Company had not complied with financial covenant on profitability to debt ratio.

Based on unaudited data in first quarter of 2015 it was noted that the sales have decreased by 17% comparing the prior year which is also 13% less than initially planned at the beginning of the year. However, prudent risk management and pursuing carefully selected opportunities in the market helped to reach profitability which has increased by 125% comparing to prior year and it is also 288% more than initially budgeted.

To ensure ability to operate on going concern basis, the management of the Group has identified following main areas to be monitored – market risk in relation to trading volumes, FX risk and maintenance of financing facilities.

As the result of decrease purchasing power in Ukraine and in Russia and the uncertainty on future developments the profitability of the operations in Ukraine and Russia is expected to decrease. The Group considers certain decrease in sales volumes. The Group's costs base is highly correlated to sales volumes accordingly in case of sales decrease the cost base of the Group would be decreased proportionally.

Since the Group currently is already partly hedging its position and the costs of hedge is passed to customers the Company does not expect to have any significant impact on its operation and net results due to sudden changes in RUB and UAH currency rates.

In 2015 the Company received waiver letter from AS SEB banka and Nordea Bank Finland plc on breach of aforementioned covenant for period of 01.01.2014 - 31.12.2014, thus releasing the Company from its obligation to repay the loan in full amount before the maturity of the loan. Also the Company received letter from AS SEB banka and Nordea Bank Finland plc stating that they will consider waiving breach of the above mentioned financial covenant as at 31 March 2015.

Taking into account that based on the unaudited data the Group has made profits in Q1 2015 the inability to attract additional financing is highly unlikely and even in worst case scenario the possible shortage of available financing would not affect ELKO Group operations to continue as going concern.

These consolidated financial statements for the year ended 31 December 2014 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by European Union.

Notes to the consolidated financial statements (continued)

2.19 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS:

The following new and/or amended IFRSs have been adopted by the Group/Company as of 1 January 2014:

- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 10, IFRS 12 and IAS 27 - Investment Entities (Amended)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

- **Amendment to IAS 27 *Separate Financial Statements*** - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The implementation of this amendment had no impact on the financial statements of the Group.
- **Amendment to IAS 28 *Investments in Associates and Joint Ventures*** - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment had no impact on the financial statements of the Group.
- **Amendment to IAS 32 *Financial Instruments: Presentation*** - Offsetting Financial Assets and Financial Liabilities - This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The implementation of this amendment had no impact on the financial statements of the Group.
- **Amendment to IAS 36 *Impairment of Assets*** - This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Group.
- **Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*** - The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the Group, since it does not apply hedge accounting.
- **IFRS 10 *Consolidated Financial Statements*** - IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. In 2014 Westech Slovakia s.r.o. which is subsidiary of Parent company established new entity Westech CZ s.r.o. Parent company controls 51% of Westech Slovakia and Westech Slovakia controls 51% of Westech CZ. The management of the Group has assessed that Group controls operations of Westech CZ entity and have included the Westech CZ in consolidated results.
- **IFRS 11 *Joint Arrangements*** - IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent

Notes to the consolidated financial statements (continued)

with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment had no impact on the financial statements of the Group since it has no joint ventures.

- **IFRS 12 *Disclosures of Interests in Other Entities*** - IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the Group.
- **Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*** - The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment had no impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

3.1 Vendor programs

The Group has to estimate the amount of credit notes due from vendors at the date of the statement of financial position based on the available information and past experience. In several vendor programs the size of the rebate is dependent on the performance of other distributors and is known exclusively by the vendor.

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2014 amounted to EUR 8,307 thousand (2013: EUR 7,968 thousand) based on the individual vendor agreements.

3.2 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

3.3 Impairment of inventories

The Group is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most of the Group's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions.

Notes to the consolidated financial statements (continued)

3.4 Impairment of trade receivables

Significant judgment is applied, when estimating the provisions for impairment of trade receivables (Note 19). The Group evaluates the receivables according to IAS 39 evaluating each significant receivable individually. Remaining receivables are pooled and the provisions for impairment are applied based on the overdue days.

3.5 Warranty provisions

The Group's vendors generally warrant the products distributed by the Group and allow returning defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs are incurred along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The amount of provision with respect to warranties is disclosed in Note 24.

3.6 Revenue recognition

The Group's sales to CIS and other countries segment (Note 6) are performed to the end customers using a number of intermediaries. The customers perceive the Group as a seller of the goods, the intermediaries in substance do not assume general inventory risk and usually the payments are made by the intermediaries to the Group after the intermediaries have received cash from the customers. Based on the above the management has concluded that the intermediaries act as agents and the Group recognizes revenue after the intermediaries have sold goods to the customers. The goods that have been legally sold but for which no revenue is yet recognized are included in Inventories as consignment inventories (Note 18).

3.7 Fair value estimation for financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

4 Changes in accounting standards

4.1 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. If applicable, the Group plans to adopt the below mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will

Notes to the consolidated financial statements (continued)

have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 01.01.2018, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. Management has not yet evaluated the impact of the implementation of this standard.

IFRS 14 *Regulatory Deferral Accounts* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this standard will not have any impact on the Group.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

Notes to the consolidated financial statements (continued)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has not yet evaluated the impact of the implementation of this standard.

4.2 Improvements to IFRSs

In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015):

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 3 *Business Combinations*;
- IFRS 13 *Fair value Measurement*;
- IAS 40 *Investment property*.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

IFRIC Interpretation 21 *Levies* (effective for financial years beginning on or after 17 June 2014)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Group has not yet evaluated the impact of the implementation of this interpretation.

Notes to the consolidated financial statements (continued)

5 Financial risk management objectives and policies

5.1 Financial risk factors

The Group's activities provide exposure to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance management of the Group both under policies approved and separate decisions made by the Board of Directors. It identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

5.1.1 Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the US dollar and other currencies changes towards the EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The purchase of goods from vendors is predominantly done in US dollars. The sales from the Parent Company to subsidiaries are done in US dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for ELKO Trading Switzerland AG, whose sales are done in US dollars and Russian rubles. Although the subsidiaries carry out the sales in the local currencies, the prices in the market tend to follow the purchasing currency i.e. US dollars, ELKO Trading Switzerland sales in US dollars or Russian rubles and its significant weight in the Group's sales result in the fact, that trade payables and receivables have very similar structure in terms of currency composition (Notes 19 and 23).

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk in the amount of EUR 11,112 thousand (2013: EUR 9,325 thousand).

The following table demonstrates the sensitivity to a reasonably possible change of the US dollar exchange rate to other currencies used by the Group, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets and liabilities).

| Increase / decrease in US dollar rate to EUR | Effect on profit (‘000) | Effect on equity (‘000) |
|---|----------------------------|----------------------------|
| 2014 | | |
| +5% | (2,082) | (1,020) |
| -5% | 2,082 | 1,020 |
| 2013 | | |
| +5% | 36 | 528 |
| -5% | (36) | (528) |

Notes to the consolidated financial statements (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. During 2014, the Group's borrowings at variable rates were predominantly denominated in US dollars, Russian rubles and Euro (Note 22).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

| | Increase / decrease in basis points | Effect on profit before tax (‘000) |
|-------------|--|--|
| 2014 | +10 | +56 |
| | - 10 | -56 |
| 2013 | +10 | -87 |
| | - 10 | +87 |

5.1.2 Credit risk

Credit risk is managed on a Group basis by implementing centralised procedures and control. Credit risk arises from the credit exposure to outstanding trade receivables and other receivables (Note 19). The Group minimizes these risks through credit risk insurance and conservative credit policy. 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. The requirement for impairment is assessed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables is grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data.

The maximum exposure as at 31 December 2014 is EUR 92,048 thousands (2013: EUR 108,730 thousand).

There is no single end-customer or group of end-customers that exceed 10% of total Group sales.

As at 31 December, 2014 the Group's credit risk exposure to its cooperation partners in CIS region was 50% of total trade receivables (2013: 74%).

Top 10 end-customers constitute approximately 40% of total sales.

5.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted payments:

| Year ended 31/12/2014 | On demand | < 3 months | 3 to 12 months | 1 to 5 years | Total |
|--------------------------|-----------|---------------|-------------------|-----------------|---------|
| Non-current borrowings | - | - | - | 60 | 60 |
| Current borrowings | 938 | 6,060 | 56,208 | - | 63,206 |
| Trade and other payables | - | 188,331 | - | - | 188,331 |

Notes to the consolidated financial statements (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on contractual undiscounted payments:

| Year ended 31/12/2013 | On demand | < 3 months | 3 to 12 months | 1 to 5 years | Total |
|--------------------------|-----------|---------------|-------------------|-----------------|---------|
| Non-current borrowings | - | - | - | 931 | 931 |
| Current borrowings | - | 17,269 | 66,695 | - | 83,964 |
| Trade and other payables | - | 125,078 | - | - | 125,078 |

5.1.4 Legislative risk

The Group has used, and continues to use, a variety of third-party entities in which it does not hold any direct or indirect equity interest to facilitate the import of products into Russia and Ukraine. In the Eastern European countries the tax legislation and rulings are still subject to frequent change, and consequently are not as stable as the tax practices in most of the Western world countries. In the event that Russian and/or Ukrainian tax authorities choose to take a more aggressive position in their interpretation and enforcement of tax legislation, the Group might be held liable in case of a failure of a third party to comply with the interpretations of the authorities in Russia and/or Ukraine. Any estimate of a likelihood of any liability arising as a result of the Russian or Ukrainian tax enforcement, its effect on the financial position of the Group or the maximum amount cannot be reasonably assessed. Historically no such claims have arisen. Sales of products to Russian and Ukrainian customers are disclosed in Note 6.

5.2 Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated as follows:

Long-term fixed-rate and variable-rate receivables/issued loans are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Short term trade receivables and other receivables after allowance for impairment and short term trade payables and other payables are assumed to approximate fair value.

As at 31 December 2014 and 31 December 2013 the carrying amounts of trade receivables, loans issued, other receivables, trade payables, borrowing obtained and other payables, are not materially different from their calculated fair values. All estimated fair values are classified under Level 3.

Notes to the consolidated financial statements (continued)

5.3 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the financial years presented.

According to legal requirements the board has to ask for shareholder meeting to deal with going concern issue if the equity of the parent company falls below 50% of share capital.

| | 31.12.2014 | 31.12.2013 |
|------------------------------------|-------------|-------------|
| Parent company financials | | |
| Share capital | 9,785 | 9,785 |
| Total equity | 45,380 | 43,900 |
| Total equity/ Share capital | 464% | 449% |

According to loan covenants the Group's net liabilities/ equity ratio should not exceed 1. During the year 2014 the Group has not been in breach of the respective covenant.

The Group monitors capital using the following ratio:

| | 31.12.2014 | 31.12.2013 |
|--------------------------------|-------------|-------------|
| Consolidated financials | | |
| Net Debt* | 29,800 | 61,065 |
| Total equity | 71,733 | 79,295 |
| Net Liabilities/ Equity | 0.42 | 0.77 |

* Net debt is calculated as all borrowings less cash and deposits.

6 Operating segment information

The Group is organized into three reportable segments by location of customers:

- The Baltic area relates to Latvia, Lithuania and Estonia;
- Central and Eastern Europe area primarily relates to Slovakia, Slovenia and Romania and other Balkan states;
- The area of CIS relates to Russia, Ukraine and Kazakhstan.

The purchasing of inventory from vendors as well as financing is managed by the Parent Company. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed by the Parent Company at the corporate level and are included in the Baltic segment.

Therefore, the Group measures segment performance, including corporate performance, based on the segment's operating result and is measured consistently with operating profit or loss in the consolidated financial statements. Unallocated remain operating expenses of the central operation.

The segment results for the year ended 31 December 2014 are as follows:

| | The Baltic ¹⁾ | Central and Eastern Europe | CIS | Adjustments and eliminations ²⁾ | Group |
|--|--------------------------|----------------------------|----------------|--|----------------|
| Third-party revenue | 84,856 | 211,199 | 676,623 | - | 972,678 |
| Inter-segment revenue | 372,473 | 5,531 | 81,019 | (459,023) | - |
| Revenue | 457,329 | 216,730 | 757,642 | (459,023) | 972,678 |
| Operating profit / Segment result | 5,737 | 3,805 | (6,594) | (1,116) | 1,832 |
| Impairment/ reversal of impairment of doubtful debtors | 22 | 104 | - | - | 126 |

The segment results for the year ended 31 December 2013 are as follows:

| | The Baltic ¹⁾ | Central and Eastern Europe | CIS | Adjustments and eliminations ²⁾ | Group |
|--|--------------------------|----------------------------|----------------|--|----------------|
| Third-party revenue | 84,730 | 112,978 | 688,321 | - | 886,029 |
| Inter-segment revenue | 534,219 | 3,100 | 603 | (537,922) | - |
| Revenue | 618,949 | 116,078 | 688,924 | (537,922) | 886,029 |
| Operating profit / Segment result | 4,880 | 1,319 | 12,568 | (179) | 18,588 |
| Impairment/ reversal of impairment of doubtful debtors | 87 | 117 | - | - | 204 |

¹⁾ All of sales are done from Domicile country – Latvia.

²⁾ Inter-segment revenues as well as unrealized profits on unsold inventory acquired in intercompany transactions and loss on intercompany accounts receivables are eliminated on consolidation. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to the consolidated financial statements (continued)

6 Operating segment information cont'd

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables. Segment liabilities comprise operating liabilities, borrowings and other payables. Capital expenditure comprises additions to equipment (Note 16) and intangible assets (Note 15).

The segment assets and liabilities at 31 December 2014 and capital expenditure for the year ended are as follows:

| | Year ended 31 December 2014 | | | | |
|-------------------------------|--------------------------------|-------------------------------|---------|--|---------|
| | The Baltic ¹⁾ | Central and Eastern Europe | CIS | Adjustments and eliminations ²⁾ | Group |
| Inventory | 34,325 | 14,206 | 147,685 | (521) | 195,695 |
| Trade and other receivables | 76,263 | 16,878 | 99,811 | (100,904) | 92,048 |
| Other assets | 72,757 | 6,294 | 36,526 | (79,909) | 35,668 |
| Total Assets | 183,345 | 37,378 | 284,022 | (181,334) | 323,411 |
| Liabilities | 137,582 | 27,068 | 264,841 | (177,813) | 251,678 |
| Capital expenditure (Note 15) | 12 | 60 | - | - | 72 |
| Amortisation (Note 15) | 8 | 15 | - | - | 23 |
| Capital expenditure (Note 16) | 173 | 242 | 82 | - | 497 |
| Depreciation (Note 16) | 266 | 103 | 40 | - | 409 |

The segment assets and liabilities at 31 December 2013 and capital expenditure for the year ended are as follows:

| | Year ended 31 December 2013 | | | | |
|-------------------------------|--------------------------------|-------------------------------|---------|--|---------|
| | The Baltic ¹⁾ | Central and Eastern Europe | CIS | Adjustments and eliminations ²⁾ | Group |
| Inventory | 32,355 | 8,547 | 113,660 | (602) | 153,960 |
| Trade and other receivables | 73,922 | 9,246 | 89,257 | (63,695) | 108,730 |
| Other assets | 73,840 | 4,381 | 35,465 | (88,040) | 25,646 |
| Total Assets | 180,117 | 22,174 | 238,382 | (152,337) | 288,336 |
| Liabilities | 135,854 | 14,180 | 207,808 | (148,801) | 209,041 |
| Capital expenditure (Note 15) | 13 | 3 | - | - | 16 |
| Amortization (Note 15) | 10 | 18 | - | - | 28 |
| Capital expenditure (Note 16) | 316 | 122 | - | - | 438 |
| Depreciation (Note 16) | 282 | 87 | 34 | - | 403 |

¹⁾ The majority of the assets and the liabilities relate to Domicile country – Latvia.

²⁾ The adjustments and eliminations practically include only elimination of the intercompany receivables and payables

There is no single end-customer or group of end-customers that exceed 10% of total Group sales or assets.

The distribution of the revenue by the product groups is disclosed in Note 7.

Notes to the consolidated financial statements (continued)

7 Sale of goods

| | 2014 | 2013 |
|-----------------------------|----------------|----------------|
| Mobile Solutions | 155,629 | 283,530 |
| Desktop Solutions | 204,262 | 230,367 |
| Smartphones and Tablets | 398,798 | 150,625 |
| Server & Security Solutions | 97,268 | 106,324 |
| Consumer and Multimedia | 87,541 | 79,742 |
| Software | 29,180 | 35,441 |
| | 972,678 | 886,029 |

8 Expenses by nature

| | 2014 | 2013 |
|--|----------------|----------------|
| Trade inventory sold | 942,411 | 850,136 |
| Employee benefit expense (Note 11) | 8,960 | 7,938 |
| Rent and office maintenance expenses | 2,409 | 2,190 |
| Warehousing expenses | 1,332 | 1,283 |
| Transportation expenses | 1,129 | 876 |
| Advertising costs | 924 | 707 |
| Professional fees | 498 | 484 |
| Depreciation and amortisation charges (Notes 15, 16) | 432 | 431 |
| Write-off of damaged goods (Note 18) | 226 | 184 |
| Other expenses | 3,526 | 2,795 |
| | 961,847 | 867,024 |

9 Other income/expenses

9.1 Other operating income

| | 2014 | 2013 |
|---|------------|-----------|
| Income from services provided | 110 | 6 |
| Other income | 49 | 41 |
| Net income from sale of property, plant and equipment | 19 | - |
| | 178 | 47 |

9.2 Other operating expenses

| | 2014 | 2013 |
|--|----------------|--------------|
| Allowance for bad debts (Note 19) | (126) | (203) |
| Net loss from foreign exchange influence * | (8,985) | (225) |
| Penalties and similar expenses | (49) | - |
| Other expenses | (17) | (36) |
| | (9,177) | (464) |

* In Q4 2014 the Russian ruble lost more than 30% of its value towards other major currencies. Due to sudden devaluation of currency the financial institutions did not offer any hedge instruments accordingly the Company suffered significant currency losses.

Notes to the consolidated financial statements (continued)

10 Finance income and costs

| | 2014 | 2013 |
|--|----------------|----------------|
| Interest expense: | | |
| – Bank borrowings | (3,768) | (3,185) |
| – Other interests | (1,598) | (517) |
| – Loss from derivative financial instruments | (682) | - |
| Finance costs | (6,048) | (3,702) |
| Finance income: | | |
| – Interest income on short-term bank deposits | 28 | 33 |
| – Other interest income | 29 | 34 |
| – Income from derivative financial instruments | 305 | - |
| Finance income | 362 | 67 |
| Net finance costs | (5,686) | (3,635) |

11 Employee benefit expense

| | 2014 | 2013 |
|---------------------------|--------------|--------------|
| Wages and salaries | 7,098 | 6,264 |
| Social security costs | 1,791 | 1,537 |
| Other employment benefits | 71 | 137 |
| | 8,960 | 7,938 |

Employees involved in the sales functions are subject to a partial variable remuneration based on the sales performance.

12 Income tax

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

Consolidated statement of comprehensive income

| | 2014 | 2013 |
|---|--------------|--------------|
| Current income tax: | | |
| Current income tax charge | 1,546 | 1,965 |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | - | - |
| | 1,546 | 1,965 |

Consolidated statement of financial position

| | 2014 | 2013 |
|------------------------------------|--------------|------------|
| Current income tax receivable | 581 | 477 |
| Current income tax payable | (878) | (273) |
| Current income tax receivable, net | (297) | 204 |

The tax charge differs from the theoretical amount that would arise using the tax rate applicable to the Group's profit before tax as follows:

| | 2014 | 2013 |
|--|----------------|---------------|
| Accounting profit before income tax | (3,854) | 14,953 |
| At Latvia's statutory income tax rate of 15% | (578) | 2,242 |
| Effect of different tax rates in other countries | - | (314) |
| Unrecognized deferred tax asset | 2,082 | - |
| Expenses not deductible for tax purposes | 42 | 67 |
| Tax discount for donations | - | (30) |
| Tax charge | 1,546 | 1,965 |

Notes to the consolidated financial statements (continued)

The summary of unused tax losses are as follows:

13,104 thousand EUR that can be used till 2022

2,034 thousand EUR that can be used till 2020

13 Earnings per share

The Group 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 net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | 2014 | 2013 |
|---|---------|-------|
| Profit attributable to equity holders of the Parent Company | (6,287) | 9,246 |
| Weighted average number of ordinary shares in issue (thousands) | 6,877 | 6,877 |
| Basic earnings per share (EUR per share) | (0.91) | 1.34 |

14 Dividends per share

During the year the shareholders have decided on the distribution of the dividends on prior year retained earnings in amount of EUR 3,664 thousand (EUR 0.53 per share), in 2013 EUR 7,854 thousand (EUR 1.14 per share).

Notes to the consolidated financial statements (continued)

15 Intangible assets

| | <u>Software</u> |
|------------------------------------|-------------------|
| At 31 December 2012 | |
| Cost | 544 |
| Accumulated amortisation | (461) |
| Net book amount | <u>83</u> |
| Year ended 31 December 2013 | |
| Opening net book amount | 83 |
| Exchange differences | - |
| Additions | 15 |
| Disposals at cost | (21) |
| Amortisation reversal on disposals | 21 |
| Amortisation charge | (28) |
| Closing net book amount | <u>70</u> |
| At 31 December 2013 | |
| Cost | 538 |
| Accumulated amortisation | (468) |
| Net book amount | <u>70</u> |
| Year ended 31 December 2014 | |
| Opening net book amount | 70 |
| Exchange differences | (4) |
| Additions | 72 |
| Disposals at cost | - |
| Amortisation reversal on disposals | - |
| Amortisation charge | (23) |
| Closing net book amount | <u>115</u> |
| At 31 December 2014 | |
| Cost | 606 |
| Accumulated amortisation | (491) |
| Net book amount | <u>115</u> |

Amortisation expenses of intangible assets in the amount of EUR 23 thousand (2013: EUR 28 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses.

The cost of fully depreciated intangible assets at 31 December 2014 was EUR 262 thousand (2013: EUR 253 thousand).

All intangible assets have been pledged to secure bank credit lines (Note 22).

16 Property, plant and equipment

| | Leasehold improvements | Communication and computer engineering | Other fixed assets | Total |
|------------------------------------|---------------------------|--|-----------------------|------------|
| At 31 December 2012 | | | | |
| Cost | 23 | 1,055 | 1,393 | 2,471 |
| Accumulated depreciation | (20) | (807) | (763) | (1,590) |
| Net book amount | 3 | 248 | 630 | 881 |
| Year ended 31 December 2013 | | | | |
| Opening net book amount | 3 | 248 | 630 | 881 |
| Exchange differences | - | 14 | (38) | (24) |
| Additions | 13 | 201 | 223 | 437 |
| Disposals at cost | - | (84) | (91) | (175) |
| Depreciation reversal on disposals | - | 83 | 91 | 174 |
| Depreciation charge | (1) | (223) | (178) | (402) |
| Reclassification | - | - | - | - |
| Closing net book amount | 15 | 239 | 637 | 891 |
| At 31 December 2013 | | | | |
| Cost | 36 | 1,187 | 1,486 | 2,709 |
| Accumulated depreciation | (21) | (948) | (849) | (1,818) |
| Net book amount | 15 | 239 | 637 | 891 |
| Year ended 31 December 2014 | | | | |
| Opening net book amount | 15 | 239 | 637 | 891 |
| Exchange differences | (1) | 3 | (22) | (20) |
| Additions | - | 145 | 352 | 497 |
| Disposals at cost | (4) | (30) | (74) | (108) |
| Depreciation reversal on disposals | 2 | 30 | 50 | 82 |
| Depreciation charge | (2) | (203) | (204) | (409) |
| Reclassification | - | - | - | - |
| Closing net book amount | 10 | 184 | 739 | 933 |
| At 31 December 2014 | | | | |
| Cost | 31 | 1,305 | 1,742 | 3,078 |
| Accumulated depreciation | (21) | (1,121) | (1,003) | (2,145) |
| Net book amount | 10 | 184 | 739 | 933 |

Depreciation expenses of tangible assets in the amount of EUR 409 thousand (2013: EUR 403 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses.

The cost of fully depreciated property, plant and equipment at 31 December 2014 was EUR 1,034 thousand (2013: EUR 871 thousand).

All tangible assets have been pledged to secure bank credit lines (Note 22).

Finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2014 was 96 EUR thousand (2013: EUR 128 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Notes to the consolidated financial statements (continued)

17 Long term loans

| | 31.12.2014 | 31.12.2013 |
|------------------------------------|--------------|--------------|
| Loan to Startmaster Trade Limited* | 1,647 | 1,466 |
| Other loans | - | 27 |
| | 1,647 | 1,493 |

* In 2013 ELKO Marketing Limited issued a loan to Startmaster Trade Limited in amount of 1.647 million EUR. The loan was granted with the purpose of the acquisition of company Trade Alliance OOO that operates retail chain "Startmaster" with 25 retail stores in Russia in Moscow region. The interest on loan is 1%. The repayment date of the loan is 11 June 2015. According to negotiations with the partner the loan will be prolonged for one year.

18 Inventories

| | 31.12.2014 | 31.12.2013 |
|--|----------------|----------------|
| Trade inventory | 157,096 | 116,782 |
| Trade inventory in transit | 37,143 | 36,979 |
| Prepayments for trade inventory | 1,456 | 199 |
| Total inventories at the lower of cost and net realisable value | 195,695 | 153,960 |

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. As such estimates are continuously evaluated; it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs. Write-downs for damaged and missing inventory amount to EUR 227 thousand (2013: EUR 184 thousand) and are charged to distribution costs in the statement of comprehensive income (Note 8).

The cost of inventories recognised as expense and included in cost of sales amounted to EUR 942,411 thousand (2013: EUR 850,136 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group EUR 2,828 thousand (2013: EUR 8,176 thousand) and trade inventory in transit have been pledged to secure bank credit lines (Note 22).

Of the total inventories consignment inventories as at 31 December 2014 were EUR 85,044 thousand (2013: EUR 98,002 thousand).

19 Trade and other receivables

| | 31.12.2014 | 31.12.2013 |
|---|---------------|----------------|
| Trade receivables | 79,322 | 97,211 |
| Less: allowance for impairment of trade receivables | (306) | (299) |
| Trade receivables – net | 79,016 | 96,912 |
| VAT receivable | 4,829 | 3,230 |
| Other debtors | 2,676 | 7,558 |
| Accrued income | 5,524 | 1,020 |
| Other tax receivable in foreign countries | 1 | 6 |
| Personal income tax receivable | 2 | 4 |
| | 92,048 | 108,730 |

All trade receivables have been pledged to secure bank credit lines (Note 22).
Trade receivables are non-interest bearing and are generally on 7-90 days' terms.
There is no overdue other debtors.

As at 31 December, the ageing analysis of net trade receivables is as follows:

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|------------|--------|--|---------------------------|------------|----------|
| | | | <90 day | 90-180 day | >180 day |
| 31.12.2014 | 79,016 | 76,588 | 2,402 | 5 | 21 |
| 31.12.2013 | 96,912 | 94,473 | 2,361 | 50 | 28 |

Based on further business performance of the debtors in 2015 and continuing incoming cash flows from the respective non impaired receivables, the management evaluated these receivables and noted that the impairment is not necessary.

Movements in the allowance for impairment of trade receivables are as follows:

| | 2014 | 2013 |
|-------------------|------------|------------|
| At 1 January | 299 | 21,279 |
| Impairment charge | 126 | 204 |
| Used allowances | (119) | (21,184) |
| Exchange Rates | - | - |
| At 31 December | 306 | 299 |

The creation and release of allowance for impaired receivables have been included in other operating expenses in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the consolidated financial statements (continued)

20 Cash and cash deposits

| | 31.12.2014 | 31.12.2013 |
|---------------------------|---------------|---------------|
| Cash at banks and on hand | 31,462 | 22,144 |
| Deposits up to 3 months | 391 | 349 |
| | 31,853 | 22,493 |

All cash and cash deposits have been pledged to secure bank credit lines (Note 22) but the Company has unlimited access to these funds.

21 Issued capital and reserves

21.1 Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2013: 6,877 thousand shares) with a par value of EUR 1.423 per share (2013: EUR 1.423 per share). All issued shares are fully paid. There was no share options in any of the years presented. All issued shares were purchased by cash contribution.

21.2 Share Premium

During 2005 share capital was increased, attracting new shareholders. As a result of share capital increase and attraction of new shareholders, share premium reserve in the amount of EUR 4,974 thousand was created.

21.3 Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

Notes to the consolidated financial statements (continued)

22 Interest-bearing loans and borrowings

| Current | Interest rate % | Maturity | 31.12.2014 | 31.12.2013 |
|--|---------------------|------------|---------------|---------------|
| Obligations under finance lease and hire purchase contracts | EURIBOR3M + 2.5% | 2015/2014 | 88 | 61 |
| Bank loans and credit lines | | | | |
| Credit line from Promsvjazbank (USD facility) | 5.5% | 05.06.2015 | - | 3,664 |
| Credit line from Promsvjazbank (RUB facility) | 12%-16% | 05.06.2015 | 13,823 | 11,097 |
| Credit line from Nordea Bank Finland plc | USD LIBOR3M + 2.62% | 31.07.2015 | 18,525 | 19,640 |
| Credit line from AS SEB Banka | USD LIBOR3M + 2.62% | 31.07.2015 | 22,378 | 39,690 |
| Credit line from Volksbank a.s. (Slovakia) | EURIBOR1M + 1.2% | 30.04.2015 | - | 2,709 |
| Credit line from Transilvania Bank (Romania) | 8.00% | 04.04.2015 | 4,160 | 3,608 |
| Credit line from SKB D.D. (Slovenia) | EURIBOR6M + 4.0% | 02.01.2015 | 135 | - |
| Trade finance facility Macquarie Bank Limited | EURIBOR3M + 4.8% | 06.06.2014 | - | 2,040 |
| Trade finance facility Deutsch bank AG | USD LIBOR3M + 3.0% | 16.01.2015 | - | 202 |
| Alfa Bank Kazakhstan | | | 1,675 | - |
| Other loans: | | | | |
| Other - credit cards | | | 4 | 7 |
| Loan from Burntwood Inc.Limited (Elko Mobile) | 3% | 31.12.2014 | 807 | - |
| | | | 61,595 | 82,720 |
| Non-current | | | | |
| Obligations under finance lease and hire purchase contracts | EURIBOR3M + 2.5% | 2015/2017 | 58 | 121 |
| Other loans: | | | | |
| Loan from Burntwood Inc.Limited (Elko Mobile) | | | - | 717 |
| | | | 58 | 838 |
| | | | 61,653 | 83,558 |

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 31.12.2014 | 31.12.2013 |
|-----|---------------|---------------|
| USD | 41,710 | 63,913 |
| RUB | 13,824 | 11,098 |
| EUR | 284 | 4,939 |
| RON | 4,160 | 3,608 |
| KZT | 1,675 | - |
| | 61,653 | 83,558 |

Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 15, 16, 18 and 19). The fair value of current borrowings approximates their carrying amount, as they bear floating interest rates and the impact of discounting is not significant. The average effective interest rate on the bank borrowings as at 31 December 2014 was 5.6% (2013: 4.23%).

Notes to the consolidated financial statements (continued)

As at December 31, 2014 the Group had following undrawn available financing facilities:

| | |
|--|---------------|
| Credit line from Promsvjazzbank | 10,296 |
| Credit line from Nordea Bank Finland plc | 2,066 |
| Credit line from AS SEB Banka | 18,806 |
| Credit line from Volksbank a.s. (Slovakia) | 2,750 |
| Credit line from SKB D.D. (Slovenia) | 265 |
| | 34,183 |

23 Trade and other payables

| | 31.12.2014 | 31.12.2013 |
|---------------------------------|-------------------|-------------------|
| Trade payables | 179,296 | 121,269 |
| Social security and other taxes | 2,136 | 1,713 |
| Unpaid salaries | 105 | 85 |
| Accrued expenses | 6,146 | 1,281 |
| Dividends unpaid | 399 | - |
| Other | 249 | 730 |
| | 188,331 | 125,078 |

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 45 day terms;
- Other payables are non-interested bearing and have an average term of 30 days;
- Interest payable is normally settled monthly throughout the financial year;
- For terms and conditions relating to related parties, refer to Note 25.

24 Provisions

| | 2014 | 2013 |
|---|-------------|-------------|
| Beginning of year | 132 | 128 |
| Charged / (credited) to the statement of comprehensive income | 134 | 132 |
| - Used during year | (132) | (128) |
| End of year | 134 | 132 |

Provisions represent expected costs with regards to handling warranty process of the sold goods.

25 Derivative financial assets and financial liabilities

25.1 Financial assets

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Financial instruments at fair value through profit or loss | | |
| Derivatives not designated as hedges | 305 | - |
| - Foreign exchange forward contracts | | |
| Total instruments at fair value through profit or loss | 305 | - |
| | 31.12.2014 | 31.12.2013 |
| Total financial assets | 305 | - |

Notes to the consolidated financial statements (continued)

25.2 Financial liabilities

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Financial instruments at fair value through profit or loss | | |
| Derivatives not designated as hedges | | |
| - Foreign exchange forward contracts | (682) | - |
| Total instruments at fair value through profit or loss | (682) | - |
| | 31.12.2014 | 31.12.2013 |
| Total financial liabilities | 682 | - |

Financial instruments through profit or loss reflect the positive change in fair value of those foreign exchange Forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

26 Related party disclosures

There are no ultimate controlling parties of the Group. The shareholders of the Company are as follows:

| | % of Share Capital | |
|--|--------------------|------------|
| | 31.12.2014 | 31.12.2013 |
| Ashington Business Inc. Ltd, domiciled in the United Kingdom | 19.78 | 19.78 |
| Solsbury Inventions Ltd, domiciled in the United Kingdom | 19.71 | 19.71 |
| Amber Trust II S.C.A., domiciled in Luxembourg | 17.67 | 17.67 |
| Eurotrail SIA, domiciled in Latvia | 10.96 | 10.96 |
| Whitebarn SIA, domiciled in Latvia | 10.96 | 10.96 |
| KRM Serviss, SIA, domiciled in Latvia | 10.72 | 10.72 |
| Solo investīcijas, SIA, domiciled in Latvia | 10.20 | 10.20 |

26.1 Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of EURL 325 thousand (2013: EUR 357 thousand).

| | 2014 | 2013 |
|----------------------------------|------------|------------|
| The Board members' remuneration: | | |
| - salary expenses | 276 | 287 |
| - social insurance | 49 | 70 |
| | 325 | 357 |

Notes to the consolidated financial statements (continued)

26.2 Transactions with related parties

The services in amount of EUR 1,507 thousand (2013: EUR 1,521 thousand) were provided by AST BALTS that are controlled by some of the shareholders of the Group.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

| | | Purchases from related parties | Amounts owed to related parties | Sales to related parties |
|-------------|------|-----------------------------------|------------------------------------|-----------------------------|
| | | EUR '000 | EUR '000 | EUR '000 |
| AST Balts * | 2014 | 1,507 | 22 | 3 |
| | 2013 | 1,521 | 24 | - |

* Accordingly the Group has entered into an agreement with related party AST BALTS for rent of warehousing and office space. The respective office premises were completed in Q1 2011.

There were no sales to related parties in any of the years presented. Except for the above mentioned there were no receivables from or loans or guarantees issued to related parties at any statement of financial position date presented.

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.

27 Commitments and contingencies

27.1 Operating lease commitments – Group as lessee

The Group leases various offices and warehouses under cancellable operating lease agreements. Should the Group decide to terminate these agreements, it is required to give one month notice. There are no further penalty payments required.

27.2 Guarantees and pledges

All assets of the Group except as noted in Note 18 Inventories have been pledged as security in favour of the banks.

28 Events after the reporting period

Subsequent to 31 December 2014, the economic and political uncertainty in Ukraine increased significantly. Between 1 January 2015 and 30 April 2015 the Ukrainian Hryvnia devalued to major foreign currencies by more than 40% and International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

These and any further negative developments in Ukraine could adversely impact results and financial position of the Group in a manner not currently determinable.

At 31 December 2014, ELKO Group's balance sheet exposure to Ukrainian risk amounted to approximately USD 40 million and it has subsequently decreased below USD 30 million as of 30 April 2015. With outstanding assets in Ukrainian hryvnia less than USD 3 million.

The operations in Ukraine region constitute approximately 15% of total group's operations. In Q1 2015 the sales to Ukraine region have decreased to approximately 10% of total group sales.

At 14 May 2015 amendments to loan agreement signed with SEB banka and Nordea Bank Finland plc. It was agreed to decrease credit facility limit by USD 10 million.



Building a better
working world

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Elko Grupa

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Elko Grupa and its subsidiaries (the "Group"), set out on pages 6 through 44 of the accompanying 2014 Annual Report, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

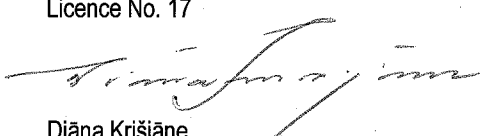
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

SIA Ernst & Young Baltic
Licence No. 17



Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Rīga,
12 August 2015