elko®
Grow to succeed. ELKO Group.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as of December 31, 2015 and of its financial operations for the year ended 31 December, 2015. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

The Board of Directors of AS ELKO Grupa is responsible for the maintenance of proper accounting records so that at the appropriate moment the financial records would show the true and fair view of the financial position of the Group and would ensure the possibility for the management to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Egons Mednis

Chairman of the Board,

Riga, April 22, 2016

Grow to succeed. ELKO Group.

ELKO GRUPA AS

Consolidated Financial Statements

For the year ended 31 December 2015

Grow to succeed. ELKO Group.

Structure

General information

Group name	ELKO GRUPA AS
Legal status of the Group	Joint Stock Company
Unified registration number, place and date of registration	4 000 312 956 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), Luxemburgh 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, 2015

MANAGEMENT REPORT

Business activities

AS ELKO Grupa (hereinafter – the Company or ELKO) 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 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 is ELKO's 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 2015 reached revenue of 1,264 million USD, which was 2% decrease comparing to 2014. Despite overall market slowdown in ELKO's main market – CIS region the Company showed it'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 2015 was 52,4 million EUR, which was considerable increase comparing to 30,3 million EUR in 2014. The increase in gross margin is mainly related to Company's ability to capitalize on its long term relationships with vendors and clients by providing value added services with adequate pricing strategy.

The net result of the Company for 2015 was 19,69 million EUR comparing to net loss of 5.4 million EUR in 2014. Despite challenging market conditions, the Company has proven its status as trusted long term partner to provide good quality services to its vendors and clients, which in line with efficient cost structure and continuous improvement in risk management policies has resulted in positive net profit.

Significant events during reporting period

In 2015 the Company has become the official distributor and/or has expanded their business partnerships with well-known IT companies, such as: *Dell, Huawei, Lanner, AEE, Getac, Solidfire, Netis, ScreenMedia, Qlogic, Hikvision, Asustor, Aiino and others.*

During autumn 2015 the Company issued 3 year bonds for 8 million EUR, which subsequently in March, 2016 were listed on Nasdaq Riga Stock Exchange.

AS ELKO GRUPA structure

AS ELKO Grupa has shareholding in following 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

ELKO operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro 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 – US dollar. The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars. The monitors the open foreign currency positions and if necessary acquires adequate financing instruments to minimize the risk.

MANAGEMENT REPORT (continued)

Interest rate risk
The Company 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
The Company 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.

Suggested profit distribution
Board suggests to distribute 30% of ELKO profit as dividends and transfer the rest of the profit to Retained earnings in order to support future investments and maintain financial stability

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, 22 April, 2016

Consolidated financial statement
Consolidated statement of comprehensive income

	Note	2015 EUR '000	2014 EUR '000
Sale of goods	6; 7	1,139,256	972,678
Cost of sales	8	(1,086,904)	(942,411)
Gross profit		**52,352**	**30,267**
Other operating income	9.1	1,451	178
Selling and distribution costs	8	(3,990)	(4,279)
Administrative expenses	8	(17,673)	(15,157)
Other operating expenses	9.2	(653)	(9,177)
Operating profit		**31,487**	**1,832**
Finance income		494	362
Finance costs		(8,245)	(6,048)
Finance income/ (costs) – net	10	(7,751)	(5,686)
Profit (loss) before tax from continuing operations		**23,736**	**(3,854)**
Income tax expense	12	(4,050)	(1,546)
Profit (loss) for the year from continuing operations		**19,686**	**(5,400)**
Attributable to:			
Equity holders of the parent		11,304	(6,287)
Non-controlling interests		8,382	887
		19,686	**(5,400)**
Basic and diluted earnings per ordinary share (EUR per share)	13	1.16	(0.91)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		1,900	2,618
Total comprehensive income to be reclassified to profit or loss in subsequent periods for the year		**21,586**	**(2,782)**
Attributable to:			
Equity holders of the Parent Company		12,814	(3,998)
Non-controlling interests		8,772	1,216
		21,586	**(2,782)**

The notes on pages 10 to 42 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board
22 April 2016

Consolidated statement of financial position

	Note	31.12.2015	31.12.2014
ASSETS		**EUR '000**	**EUR '000**
Non-current assets			
Intangible assets	15	402	115
Property, plant and equipment	16	1,358	933
Long term loans	17	3,426	1,647
		5,186	**2,695**
Current assets			
Inventories	18	204,047	195,695
Current income tax receivable	12	2,270	581
Trade and other receivables	19	107,072	92,048
Prepaid expenses		-	234
Derivative financial instruments	25	2,449	305
Cash deposits	20	-	391
Cash and cash equivalents	20	29,354	31,462
		345,192	**320,716**
Total assets		**350,378**	**323,411**
EQUITY			
Issued capital	21	9,785	9,785
Share premium	21	4,974	4,974
Translation reserve	21	2,281	771
Retained earnings		60,429	49,125
Equity attributable to equity holders of the Parent Company		**77,469**	**64,655**
Non-controlling interests		12,399	7,078
Total equity		**89,868**	**71,733**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	22	8,063	58
		8,063	**58**
Current liabilities			
Trade and other payables	23	179,662	188,331
Interest-bearing loans and borrowings	22	70,580	61,595
Income tax payable	12	2,205	878
Provisions	24	-	134
Derivative financial instruments	25	-	682
		252,447	**251,620**
Total liabilities		**260,510**	**251,678**
Total equity and liabilities		**350,378**	**323,411**

The notes on pages 10 to 42 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board
22 April 2016

Consolidated statement of changes in equity

	Attributable to equity holders of the Parent Company						
	Issued capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January 2014	**9,785**	**4,974**	**59,076**	**(1,518)**	**72,317**	**6,978**	**79,295**
Other comprehensive income	-	-	-	2,289	2,289	329	2,618
Profit for the year	-	-	(6,287)	-	(6,287)	887	(5,400)
Total comprehensive income for 2014	**-**	**-**	**(6,287)**	**2,289**	**(3,998)**	**1,216**	**(2,782)**
Dividend	-	-	(3,664)	-	(3,664)	(1,116)	(4,780)
Balance at 31 December 2014	**9,785**	**4,974**	**49,125**	**771**	**64,655**	**7,078**	**71,733**
Balance at 1 January 2015	**9,785**	**4,974**	**49,125**	**771**	**64,655**	**7,078**	**71,733**
Other comprehensive income	-	-	-	1,510	1,510	390	1,900
Profit for the year	-	-	11,304	-	11,304	8,382	19,686
Total comprehensive income for 2015	**-**	**-**	**11,304**	**1,510**	**12,814**	**8,772**	**21,586**
Dividend	-	-	-	-	-	(3,451)	(3,451)
Balance at 31 December 2015	**9,785**	**4,974**	**60,429**	**2,281**	**77,469**	**12,399**	**89,868**

Retained earnings are EUR 60,429 thousand (2014: EUR 49,125 thousand), of which EUR 63 thousand (2014: EUR 63 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 10 to 42 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board
22 April 2016

Consolidated statement of cash flows

	Note	2015 EUR'000	2014 EUR'000
Operating activities			
Profit before tax from continuing operations		23,736	(3,854)
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation of property, plant and equipment	16	570	409
Amortisation of intangible assets	15	12	23
Finance income	10	(494)	(362)
Finance costs	10	8,245	6,048
Fair value (gains) losses on derivative financial	25	(2,826)	377
Movements in provisions and allowances		(134)	2
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables and prepaid expenses		13,101	16,670
(Increase) in inventories		(8,352)	(41,735)
Increase/(Decrease) in trade and other payables		(34,402)	65,271
Interest received		494	362
Income tax paid		(4,127)	(1,045)
Net cash flows (used in) / from operating activities		**(4,177)**	**42,166**
Investing activities			
Proceeds from sale of property, plant and equity		13	26
Purchases of property, plant and equipment	16	(738)	(497)
Purchases of intangible assets	15	(306)	(72)
Loans issued	17	(3,426)	-
Repayments of loans given		1,647	29
Proceeds from cash deposits	20	-	-
Net cash flows (used in) / from investing activities		**(2,810)**	**(514)**
Financing activities			
Bank credit lines and bonds received		33,715	5,203
Repayments of bank credit lines		(16,725)	(27,108)
Non-controlling interest in established subsidiary		-	-
Interest paid		(8,245)	(6,048)
Dividends paid to equity holders of the parent		(415)	(3,265)
Dividends paid to non-controlling interests		(3,451)	(1,116)
Net cash flows (used in) / from financing activities		**4,879**	**(32,334)**
Net increase/(decrease) in cash and cash equivalents		**(2,108)**	**9,318**
Cash and cash equivalents at beginning of the year		31,462	22,144
Cash and cash equivalents at end of the year	**20**	**29,354**	**31,462**

The notes on pages 10 to 42 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 22 April 2016 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**	
		31.12.2015	**31.12.2014**
		%	**%**
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 Kazahstan Limited[1)]	Kazahstan	100%	100%
ELKO Ukraina TOB[2)]	Ukraine	100%	100%
PRUVIA SIA[2)]	Latvia	100%	100%
Westech CZ s.r.o.[3)]	Czech Republic	26%	26%

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

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

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 2015.

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)

2.1 Basis of preparation (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:

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, 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:

2.4 Taxes (continued)

- 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.

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 – 8.5%

Tax loss carry forward periods
Latvia – indefinite
Russia – 10 years
Ukraine – indefinite
Slovakia – 4 years
Romania – 5 years
Cyprus – 5 years
Switzerland – 7 years
Kazahstan – 10 years

Notes to the consolidated financial statements (continued)

2.4 Taxes (continued)

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.

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 trasaction 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.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

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.

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.

2.5 Financial instruments – initial recognition and subsequent measurement (continued)

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.

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 Group measures financial instruments such as derivatives at fair value at each balance sheet date. Fair-value related disclosures for financial instruments are summarised in the note 25.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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.

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 2015 and 2014 the Group had no borrowing costs directy 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.

2.9 Intangible assets (continued)

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

Intangible assets with finite lifes 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.

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.

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 employee benefit expense.

Notes to the consolidated financial statements (continued)

2.18 Going concern

Despite positive results in 2015 the Company still faces considerable challenges operating in its main markets – CIS region. After decrease of IT market in CIS region currently there are no indication that the market will recover in nearest future. The future development of IT market in CIS region is highly dependent on oil prices as well as geopolitical stability in the region.

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

Since the Group currently is already 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.

Taking into account that based on the unaudited data the Company is in line with budgeted Q1 sales results 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 2015 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by European Union

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 AS ELKO GRUPA as of 1 January 2015:

- Annual Improvements to IFRSs 2011 – 2013 Cycle
- IFRIC Interpretation 21: Levies

Annual Improvements to IFRSs 2011 – 2013 Cycle is a collection of amendments to the following IFRSs:

- **IFRS 3 *Business Combinations***: This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 *Fair value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40 *Investment property***: This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

IFRIC Interpretation 21 Levies
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 implementation of this standard had no effect on the financial statements of the Group.

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 2015 amounted to EUR 22,550 thousand (2014: EUR 8,307 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.

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).

4 Changes in accounting standarts

4.1 Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016)

The amendments to IAS 1 further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. 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)

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 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 16 *Property, Plant & Equipment* and IAS 41 *Agriculture: Bearer Plants* (effective for financial years beginning on or after 1 January 2016)

Bearer plants will now be within the scope of IAS 16 Property, Plant and Equipment and will be subject to all of the requirements therein. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not have bearer plants.

4.1 Standards issued buy not yet effective (continued)

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)

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.

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)

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 assessed any impact from such amendment.

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

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment 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* (endorsement deferred indefinitely)

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.

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

IFRS 14 provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Group.

Notes to the consolidated financial statements (continued)

4.1 Standards issued buy not yet effective (continued)

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

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 assessed any impact from such amendment.

IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. Management has not assessed any impact from such amendment.

4.2 Improvements to IFRSs

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):

- 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.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

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.

Notes to the consolidated financial statements (continued)

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 12,618 thousand (2014: EUR 11,112 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)
2015		
+5%	(883)	(3,678
-5%	883	3,678
2014		
+5%	(2,082)	(1,020)
-5%	2,082	1,020

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)
2015	+10	+33
	– 10	-33
2014	+10	+56
	– 10	-56

Notes to the consolidated financial statements (continued)

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 2015 is EUR 139,839 thousands (2014: EUR 92,048 thousand).

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

As at 31 December, 2015 the Group's credit risk exposure to its cooperation partners in CIS region was 42% of total trade receivables (2014: 50%).

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 2015 based on contractual undiscounted payments:

Year ended 31/12/2015	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Non-current borrowings	-	-	-	67	67
Bonds	-	-	-	8,133	8,133
Current borrowings	-	1,670	70,577	-	72,247
Trade and other payables	-	179,662	-	-	179,662

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

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 measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 25 for further disclosures

The following list 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).

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.

	31.12.2015	31.12.2014
Parent company financials		
Share capital	9,785	9,785
Total equity	53,380	45,380
Total equity/ Share capital	**546%**	**464%**

According to loan covenants the Group's net liabilities/ equity ratio should not exceed 1. During the year 2015 the Group has not been in breach of the respective covenant.

The Group monitors capital using the following ratio:

	31.12.2015	31.12.2014
Consolidated financials		
Net Debt*	49,289	29,800
Total equity	89,868	71,733
Net Liabilities/ Equity	**0.55**	**0.42**

* 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.

6. Operating segment information (continued)

The segment results for the year ended 31 December 2015 are as follows:

	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Third-party revenue	95,833	347,083	696,340	-	1,139,256
Inter-segment revenue	244,876	-	102,326	(347,202)	-
Revenue	**340,709**	**347,083**	**798,666**	**(347,202)**	**1,139,256**
Operating profit / Segment result	2,346	8,657	22,098	(1,614)	31,487
Impairment/ reversal of impairment of doubtful debtors	(87)	(455)	(19)	-	(561)

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

[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.

6 Operating segment information (continued)

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 2015 and capital expenditure for the year ended are as follows:

	Year ended 31 December 2015				
	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Inventory	23,810	55,795	124,753	(311)	204,047
Trade and other receivables	20,158	21,869	117,486	(52,441)	107,072
Other assets	123,353	10,156	32,855	(127,105)	39,259
Total Assets	167,321	87,820	275,094	(179,857)	350,378
Liabilities	113,195	74,331	246,669	(173,685)	260,510
Capital expenditure (Note 15)	306	-	-	-	306
Amortisation (Note 15)	8	4	-	-	12
Capital expenditure (Note 16)	392	313	33	-	738
Depreciation (Note 16)	256	280	34	-	570

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
Amortization (Note 15)	8	15	-	-	23
Capital expenditure (Note 16)	173	242	82	-	497
Depreciation (Note 16)	266	103	40	-	409

[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

	2015	2014
Mobile Solutions	138,216	155,629
Desktop Solutions	190,216	204,262
Smartphones and Tablets	605,613	398,798
Server & Security Solutions	113,240	97,268
Consumer and Multimedia	75,904	87,541
Software	16,067	29,180
	1,139,256	**972,678**

8 Expenses by nature

	2015	2014
Trade inventory sold	1,086,904	942,411
Employee benefit expense (Note 11)	10,016	8,960
Rent and office maintenance expenses	3,084	2,409
Warehousing expenses	1,263	1,332
Transportation expenses	1,579	1,129
Advertising costs	403	924
Professional fees	1,231	498
Depreciation and amortisation charges (Notes 15, 16)	582	432
Write-off of damaged goods (Note 18)	373	226
Other expenses	3,132	3,526
	1,108,567	**961,847**

9 Other income/expenses

9.1 Other operating income

	2015	2014
Net gain from foreign exchange	1,035	-
Income from services provided	268	110
Net Income from sale of propert, plant and equipment	5	19
Other income	143	49
	1,451	**178**

9.2 Other operating expenses

	2015	2014
Allowance for bad debts (Note 19)	(567)	(126)
Net loss from foreign exchange influence	-	(8,985)
Penalties and similar expenses	-	(49)
Other expenses	(86)	(17)
	(653)	**(9,177)**

10 Finance income and costs

	2015	2014
Interest expense:		
– Bank and bond borrowings	(8,088)	(3,768)
– Other interests	(157)	(1,598)
– Loss from derivative financial instruments	-	(682)
Finance costs	**(8,245)**	**(6,048)**
Finance income:		
– Interest income on short-term bank deposits	28	28
– Penalties and other interest income	466	29
– Income from derivative financial instruments	-	305
Finance income	**494**	**362**
Net finance costs	**(7,751)**	**(5,686)**

11 Employee benefit expense

	2015	2014
Wages and salaries	8,074	7,098
Social security costs	1,809	1,791
Other employment benefits	133	71
	10,016	**8,960**

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 2015 and 2014 are:

Consolidated statement of comprehensive income

	2015	2014
Current income tax:		
Current income tax charge	4,050	1,546
Deferred tax :		
Relating to origination and reversal of temporary differences	-	-
	4,050	**1,546**

Consolidated statement of financial position

	2015	2014
Current income tax receivable	2,270	581
Current income tax payable	(2,205)	(878)
Current income tax receivable, net	**65**	**(297)**

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:

	2015	2014
Accounting profit before income tax	**23,736**	**(3,854)**
At Latvia's statutory income tax rate of 15%	3,560	(578)
Effect of different tax rates in other countries	(404)	-
Unrecognized deferred tax asset	873	2,082
Expenses not deductible for tax purposes	21	42
Tax discount for donations	-	-
Tax charge	**4,050**	**1,546**

12 Income tax (continued)

The summary of unused tax losses are as follows:
100 thousand EUR that can be used till 2026
855 thousand EUR that can be used till 2020
3,670 thousand EUR that can be used indefinite

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:

	2015	**2014**
Profit attributable to equity holders of the Parent Company	11,304	(6,287)
Weighted average number of ordinary shares in issue (thousands)*	9,785	6,877
Basic earnings per share (EUR per share)	1,16	(0.91)

* Parent Company share capital is denominated in the euro, resulting from an additional 2,908,000 shares distributed to the Company's existing shareholders in proportion to their share holding company. Changes in share capital registered in the Register of Enterprises on 28 April 2015 and consists of 9,784,790 shares (6,876,790 shares in 2014).

14 Dividends per share

During the year the shareholders have not paid dividends.During the prior year the shareholders had decided on the distribution of the dividends on prior year retained earnings in amount of EUR 3,664 thousand (EUR 0.53 per share).

15 Intangible assets

	Software	Goodwill	Total
At 31 December 2013			
Cost	538	-	538
Accumulated amortisation	(468)	-	(468)
Net book amount	**70**	**-**	**70**
Year ended 31 December 2014			
Opening net book amount	70	-	70
Exchange differences	(4)	-	(4)
Additions	72	-	72
Disposals at cost	-	-	-
Amortisation reversal on disposals	-	-	-
Amortisation charge	(23)	-	(23)
Closing net book amount	**115**	**-**	**115**
At 31 December 2014			
Cost	606	-	606
Accumulated amortisation	(491)	-	(491)
Net book amount	**115**	**-**	**115**
Year ended 31 December 2015			
Opening net book amount	115	-	115
Exchange differences	(7)	-	(7)
Additions	6	300	306
Disposals at cost	-	-	-
Amortisation reversal on disposals	-	-	-
Amortisation charge	(12)	-	(12)
Closing net book amount	**102**	**300**	**402**
At 31 December 2015			
Cost	542	300	842
Accumulated amortisation	(440)	-	(440)
Net book amount	**102**	**300**	**402**

Amortisation expenses of intangible assets in the amount of EUR 12 thousand (2014: EUR 23 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 2015 was EUR 270 thousand (2014: EUR 262 thousand).

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

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment

	Leasehold improvements	Communication and computer engineering	Other fixed assets	Total
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**
Year ended 31 December 2015				
Opening net book amount	10	184	739	933
Exchange differences	12	4	254	270
Additions	-	316	422	738
Disposals at cost	-	(15)	(31)	(46)
Depreciation reversal on disposals	-	14	19	33
Depreciation charge	(8)	(187)	(375)	(570)
Reclassification	-	-	-	-
Closing net book amount	**14**	**316**	**1,028**	**1,358**
At 31 December 2015				
Cost	54	1,492	2,400	3,946
Accumulated depreciation	(40)	(1,176)	(1,372)	(2,588)
Net book amount	**14**	**316**	**1,028**	**1,358**

Depreciation expenses of tangible assets in the amount of EUR 570 thousand (2014: EURL 409 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 2015 was EUR 1,269 thousand (2014: EUR 1,034 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 2015 was 86 EUR thousand (2014: EUR 96 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

17 Long term loans

	31.12.2015	31.12.2014
Loan to Startmaster Trade Limited*	-	1,647
Loan to AST Balt *	3,426	-
	3,426	**1,647**

* Elko Group AS issued a loan to AST Balt in amount of 3,426 million EUR on 26 November 2015. (Note 26.2.) The interest rate is 5% and maturity date is 31 August 2020.

18 Inventories

	31.12.2015	31.12.2014
Trade inventory	178,178	157,096
Trade inventory in transit	24,167	37,143
Prepayments for trade inventory	1,702	1,456
Total inventories at the lower of cost and net realisable value	**204,047**	**195,695**

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 373 thousand (2014: EUR 226 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 1,139,256 thousand (2014: EUR 942,411 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group EUR 7,868 thousand (2014: EUR 2,828 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 2015 were EUR 92,522 thousand (2014: EUR 85,044 thousand).

19 Trade and other receivables

	31.12.2015	31.12.2014
Trade receivables	89,409	79,322
Less: allowance for impairment of trade receivables	(312)	(306)
Trade receivables – net	**89,097**	**79,016**
Advances to suppliers	9,594	-
VAT receivable	2,966	4,829
Other debtors	4,198	2,676
Custom prepayments	708	-
Debt on factoring	287	-
Bond commissions	149	-
Accrued income	16	5,524
Other tax receivable in foreign countries	57	1
Personal income tax receivable	-	2
	107,072	**92,048**

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.

19 Trade and other receivables (continued)

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
31.12.2015	89,097	87,345	1,536	210	6
31.12.2014	79,016	76,588	2,402	5	21

Based on further business performance of the debtors in 2016 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:

	2015	2014
At 1 January	306	299
Impairment charge	567	126
Used allowances	(561)	(119)
Exchange Rates	-	-
At 31 December	**312**	**306**

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.

20 Cash and cash deposits

	31.12.2015	31.12.2014
Cash at banks and on hand	29,354	31,462
Deposits up to 3 months	-	391
	29,354	**31,853**

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 9,785 thousand shares (2014: 6,877 thousand shares) with a par value of EUR 1.00 per share (2014: 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.

Notes to the consolidated financial statements (continued)

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.

22 Interest-bearing loans and borrowings

Current	Interest rate %	Maturity	31.12.2015	31.12.2014
Obligations under finance lease	EURIBOR3M + 2.5%	2016/2018	49	88
Bank loans and credit lines				
Credit line from Swedbank (USD facility)	USD LIBOR3M +5.5%	05.11.2016	4,785	-
Credit line from Promsvjazbank (RUB facility)	12%-464%	23.12.2016	12,396	13,823
Credit line from Nordea Bank Finland plc	Overnight LIBOR USD/EONIA EUR + 2.99%	31.07.2016	21,710	18,525
Credit line from AS SEB Banka	USD LIBOR3M + 3.75375%	31.07.2015	21,429	22,378
Credit line from Transilvania Bank (Romania)	8.00%	03.04.2016	6,014	4,160
Credit line from SKB D.D. (Slovenia)	EURIBOR6M + 4.0%	02.01.2015	-	135
Trade finance facility SKB D.D. (Slovenia)	1.8%	30.12.2016	300	-
Trade finance facility OTP Ukraine	23-26%	30.04.2016	3,894	-
Alfa Bank Kazakhstan			-	1,675
Other loans:				
Other - credit cards			3	4
Loan from Burntwood Inc.Limited (Elko Mobile)	3%	31.12.2014	-	807
			70,580	**61,595**
Non-current				
Bonds *	8%	16.10.2018	8,000	58
Obligations under finance lease and hire purchase contracts	EURIBOR3M + 2.5%	2016/2018	63	58
			8,063	**58**
			78,643	**61,653**

* The company in 2015 on 16 October issued the bonds was EUR 8 million, with a maturity of 16 October 2018. Bonds involve fixed interest rate (coupon) - 8% per annum. At the year end debt securities (bonds) are recorded at nominal value.

September 21, 2015, shareholders adopted a decision on debt securities (bonds) issue of October 12, 2015, the Board of Directors decided to issue bonds and to authorize the board members to sign all documents in connection with the Board's decision to issue debt securities.

December 14, 2015, the Company's board adopted a decision approving the Prospectus and include bonds on the regulated market.

March 21, 2016, the NASDAQ launched "ELKO Group" bonds stock exchange quotations.

22 Interest bearing loans and borrowings (continued)

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

	31.12.2015	31.12.2014
USD	47,943	41,710
RUB	12,395	13,824
EUR	8,396	284
RON	6,015	4,160
KZT	-	1,675
UAH	3,894	-
	78,643	**61,653**

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 2015 was 5.7% (2014: 5.6%).

As at December 31, 2015 the Group had following undrawn available financing facilities:

BANCA TRANSILVANIATRANSILVANIA (Romania)	609
Credit line from Nordea Bank Finland plc	7,719
Credit line from AS SEB Banka	1,534
Credit line from AS SWEDBANKA	2,104
Credit line from Volksbank a.s. (Slovakia)	2,750
Credit line from SKB D.D. (Slovenia)	100
	14,816

23 Trade and other payables

	31.12.2015	31.12.2014
Trade payables	155,575	179,296
Advances received	15,781	-
Social security and other taxes	1,763	2,136
Unpaid salaries	101	105
Accrued expenses	4,757	6,146
Dividends unpaid	-	399
Other	1,685	249
	179,662	**188,331**

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 26.

24 Provisions

	2015	2014
Beginning of year	134	132
Charged / (credited) to the statement of comprehensive income	-	134
– Used during year	(134)	(132)
End of year	**-**	**134**

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

	2015	2014
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
- Foreign exchange forward contracts	2,449	305
Total instruments at fair value through profit or loss	**2,449**	**305**

	31.12.2015	31.12.3014
Total financial assets	**2,449**	**305**

On December 31, 2015 was entered into foreign exchange forward contracts for the sale of RUB against USD 3,288 million RUB amount (RUB 1,058 million in 2014) with an average term of 39 days and the sale of RON against USD 3.6 million RON amount (in 2014 RON 3.6 million) with a maturity of 13 September 2016. The fair value on 31 December 2015 was EUR 2,448,709 (2014 EUR 377,524). Foreign exchange forward contracts (Forward) the fair value is calculated at market rates.
2015 derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

25.2 Financial liabilities

	2015	2014
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)**

	31.12.2015	31.12.3014
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	
	31.12.2015	**31.12.2014**
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 Luxemburg	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 259 thousand (2014: EUR 325 thousand).

	2015	2014
The Board members' remuneration:		
- salary expenses	215	276
- social insurance	44	49
	259	**325**

26.2 Transactions with related parties

The services in amount of EUR 10,700 thousand (2014: EUR 1,507 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	Amounts owed from related parties
		EUR '000	**EUR '000**	**EUR '000**	
AST Balts *	2015	1,479	19	-	3,426
	2014	1,507	22	3	-

* 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

March 21, 2016, the NASDAQ launched "ELKO Group" bonds stock exchange quotations. There are no subsequent events except for the ones mentioned in financial statements since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2015.

EY
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 42 of the accompanying 2015 Annual Report, which comprise the consolidated statement of financial position as at 31 December 2015, 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 2015, 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.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 4 through 5 of the accompanying 2015 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 22 April 2016