

## **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, 2016 and of its financial operations for the year ended 31 December, 2016. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

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

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Egons Mednis

Chairman of the Board,

Riga, April 28, 2017



## **ELKO GRUPA AS**

Consolidated Financial Statements

For the year ended 31 December 2016

## ***Structure***

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## ***General information***

Group name	ELKO GRUPA AS
Legal status of the Group	Joint Stock Company
Unified registration number, place and date of registration	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 (1,935,440 shares), United Kingdom Solsbury Inventions Limited (1,928,536 shares), United Kingdom Amber Trust II S.C.A. (1,728,644 shares), Luxembourg Eurotrail SIA (753,833 shares), Latvia Whitebarn SIA (1,072,608 shares), Latvia KRM Serviss SIA (1,049,110 shares), Latvia Solo Investīcijas IT SIA (997,844 shares), Latvia
Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Višķints – Council Member Ēriks Strods – Council Member
Board Members	Egons Mednis – Chairman of the Board with powers to represent the Group individually, President Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member from 17 February 2016, Chief Executive Officer Aleksandrs Orlovs – Board Member with representation power jointly with another Board Member Officer from 17 February 2016, Business Development Director Māris Būmanis – Board Member with representation powers jointly with another Board Member from 17 February till 12 April 2017, Chief Financial Officer till 12 April 2017 Mārtiņš Ozoliņš – Board Member with representation powers jointly with another Board Member from 17 February 2016, Distribution Director
Reporting year	1 January – 31 December, 2016

## **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, Apple, Intel, Huawei, Lenovo, 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 2016 reached revenue of 1,460 million USD (1,319 million EUR), which was 15.5 % increase comparing to 2015. 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 2016 was 55.1 million USD (49.8 million EUR), which was 5.1% decrease comparing to 2015. The decrease in gross margin is mainly related to the high competition in Company's main markets.

The net result of the Company for 2016 was 8,5 million USD (7.7 million EUR) comparing to 21.8 million USD (19.7 million EUR) in 2015. The main reason in lower profitability was the higher competition in the main markets as well as the Company's strategy on additional investments in human resources to develop new products and services.

### **Significant events during reporting period**

In 2016 the Company had become the official distributor and/or has expanded its business partnerships with well-known IT companies, such as: *Archos, CAT, Hiper, Mikrotik, Bosch and others.*

During 2016 ELKO Group joined the Global Technology Distribution Council.

In March the Company listed bonds in amount of 8 million EUR on Nasdaq Riga Stock Exchange.

### **AS ELKO GRUPA structure**

AS ELKO Grupa has shareholding in following subsidiaries: ELKO Lietuva UAB, ELKOTECH d.o.o., ELKO Eesti OU, ELKOTech Romania SRL, WESTech s.r.o., WESTech CZ s.r.o., ELKO Trading Switzerland AG, Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine LLC, Alma LLC and ELKO Kazakhstan LLP.

AS ELKO Grupa has majority shareholding in all of the subsidiaries.

### **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 Group are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars. The Group 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. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

### **Suggested profit distribution**

The Board of the Company suggests to transfer 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.

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Egons Mednis  
Chairman of the Board,  
President  
Riga, 28 April, 2017

## Consolidated statement of comprehensive income

	Note	2016 USD'000	2015 USD'000	2016 EUR'000	2015 EUR'000
Sale of goods	6; 7	1,459,916	1,264,020	1,319,162	1,139,256
Cost of sales	8	(1,404,818)	(1,205,935)	(1,269,377)	(1,086,904)
<b>Gross profit</b>		<b>55,098</b>	<b>58,085</b>	<b>49,785</b>	<b>52,352</b>
Other operating income	9.1	276	1,609	249	1,451
Selling and distribution costs	8	(6,566)	(4,427)	(5,933)	(3,990)
Administrative expenses	8	(23,164)	(19,609)	(20,930)	(17,673)
Other operating expenses	9.2	(3,647)	(725)	(3,294)	(653)
<b>Operating profit</b>		<b>21,997</b>	<b>34,933</b>	<b>19,877</b>	<b>31,487</b>
		-	-	-	-
Finance income		518	549	468	494
Finance expenses		(11,669)	(9,148)	(10,544)	(8,245)
<b>Finance income/ (expenses) – net</b>	10	<b>(11,151)</b>	<b>(8,599)</b>	<b>(10,076)</b>	<b>(7,751)</b>
		-	-	-	-
<b>Profit before tax from continuing operations</b>		<b>10,846</b>	<b>26,334</b>	<b>9,801</b>	<b>23,736</b>
Income tax expense	12	(2,316)	(4,493)	(2,093)	(4,050)
<b>Profit (loss) for the year from continuing operations</b>		<b>8,530</b>	<b>21,841</b>	<b>7,708</b>	<b>19,686</b>
<b>Attributable to:</b>					
Equity holders of the Company		8,813	12,541	7,963	11,304
Non-controlling interest		(283)	9,300	(255)	8,382
		<b>8,530</b>	<b>21,841</b>	<b>7,708</b>	<b>19,686</b>
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company	13	<b>0.90</b>	<b>1.28</b>	<b>0.81</b>	<b>1.16</b>
<b>Other comprehensive income to be reclassified to profit loss in subsequent periods</b>					
Exchange differences on translation of foreign operations		(991)	(7,317)	1,773	1,900
<b>Total comprehensive incomes for the year</b>		<b>7,539</b>	<b>14,524</b>	<b>9,481</b>	<b>21,586</b>
<b>Attributable to:</b>					
Equity holders of the Company		7,998	5,842	9,843	12,814
Non-controlling interest		(459)	8,682	(362)	8,772
		<b>7,539</b>	<b>14,524</b>	<b>9,481</b>	<b>21,586</b>

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Egons Mednis  
Chairman of the Board

28 April 2017

Kristīne Paule  
Chief accountant

**Consolidated statement of financial position**

	Note	31.12.2016	31.12.2015	31.12.2016	31.12.2015
		USD'000	USD'000	EUR'000	EUR'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	15	510	438	484	402
Property, plant and equipment	16	2,065	1,479	1,959	1,358
Non-current loans	17	3,611	3,730	3,426	3,426
		<b>6,186</b>	<b>5,647</b>	<b>5,869</b>	<b>5,186</b>
<b>Current assets</b>					
Inventories	18	263,968	222,146	250,420	204,047
Current income tax receivable	12	2,307	2,471	2,188	2,270
Trade and other receivables and prepayments	19	197,024	116,569	186,914	107,072
Derivative financial instruments	25	4	2,666	3	2,449
Cash deposits	20	1,000	-	949	-
Cash and cash equivalents	20	17,543	31,958	16,642	29,354
		<b>481,846</b>	<b>375,810</b>	<b>457,116</b>	<b>345,192</b>
<b>Total assets</b>		<b>488,032</b>	<b>381,457</b>	<b>462,985</b>	<b>350,378</b>
<b>EQUITY</b>					
Issued capital	21	11,114	11,114	9,785	9,785
Share premium	21	5,996	5,996	4,974	4,974
Translation reserve	21	(12,699)	(11,884)	4,161	2,281
Retained earnings		81,827	79,114	62,892	60,429
<b>Equity attributable to equity holders of the Parent Company</b>		<b>86,238</b>	<b>84,340</b>	<b>81,812</b>	<b>77,469</b>
<b>Non-controlling interest in equity</b>		<b>6,277</b>	<b>13,499</b>	<b>5,955</b>	<b>12,399</b>
<b>Total equity</b>		<b>92,515</b>	<b>97,839</b>	<b>87,767</b>	<b>89,868</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	22	8,452	8,778	8,018	8,063
		<b>8,452</b>	<b>8,778</b>	<b>8,018</b>	<b>8,063</b>
<b>Current liabilities</b>					
Trade and other payables	23	274,464	195,599	260,377	179,662
Interest-bearing loans and borrowings	22	110,947	76,840	105,253	70,580
Income tax payable	12	576	2,401	547	2,205
Derivative financial instruments	25	1,078	-	1,023	-
		<b>387,065</b>	<b>274,840</b>	<b>367,200</b>	<b>252,447</b>
<b>Total liabilities</b>		<b>395,517</b>	<b>283,618</b>	<b>375,218</b>	<b>260,510</b>
<b>Total equity and liabilities</b>		<b>488,032</b>	<b>381,457</b>	<b>462,985</b>	<b>350,378</b>

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Egons Mednis  
Chairman of the Board

Kristine Paule  
Chief accountant

28 April 2017



### Consolidated statement of changes in equity

	Attributable to equity holders of the Parent Company				Total	Non-controlling interest	Total equity
	Issued capital	Share premium	Retained earnings	Translation reserve			
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
<b>Balance at 1 January 2015</b>	<b>11,114</b>	<b>5,996</b>	<b>66,573</b>	<b>(5,185)</b>	<b>78,498</b>	<b>8,593</b>	<b>87,091</b>
Other comprehensive income	-	-	-	(6,699)	(6,699)	(618)	(7,317)
Profit for the year	-	-	12,541	-	12,541	9,300	21,841
<b>Total comprehensive income for 2015</b>	<b>-</b>	<b>-</b>	<b>12,541</b>	<b>(6,699)</b>	<b>5,842</b>	<b>8,682</b>	<b>14,524</b>
Dividend	-	-	-	-	-	(3,776)	(3,776)
<b>Balance at 31 December 2015</b>	<b>11,114</b>	<b>5,996</b>	<b>79,114</b>	<b>(11,884)</b>	<b>84,340</b>	<b>13,499</b>	<b>97,839</b>
<b>Balance at 1 January 2016</b>	<b>11,114</b>	<b>5,996</b>	<b>79,114</b>	<b>(11,884)</b>	<b>84,340</b>	<b>13,499</b>	<b>97,839</b>
Other comprehensive income	-	-	-	(815)	(815)	(176)	(991)
Profit for the year	-	-	8,813	-	8,813	(283)	8,530
<b>Total comprehensive income for 2016</b>	<b>-</b>	<b>-</b>	<b>8,813</b>	<b>(815)</b>	<b>7,998</b>	<b>(459)</b>	<b>7,539</b>
Dividend	-	-	(6,100)	-	(6,100)	(6,763)	(12,863)
<b>Balance at 31 December 2016</b>	<b>11,114</b>	<b>5,996</b>	<b>81,827</b>	<b>(12,699)</b>	<b>86,238</b>	<b>6,277</b>	<b>92,515</b>

  

	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
<b>Balance at 1 January 2015</b>	<b>9,785</b>	<b>4,974</b>	<b>49,125</b>	<b>771</b>	<b>64,655</b>	<b>7,078</b>	<b>71,733</b>
Other comprehensive income	-	-	-	1,510	1,510	390	1,900
Profit for the year	-	-	11,304	-	11,304	8,382	19,686
<b>Total comprehensive income for 2015</b>	<b>-</b>	<b>-</b>	<b>11,304</b>	<b>1,510</b>	<b>12,814</b>	<b>8,772</b>	<b>21,586</b>
Dividend	-	-	-	-	-	(3,451)	(3,451)
<b>Balance at 31 December 2015</b>	<b>9,785</b>	<b>4,974</b>	<b>60,429</b>	<b>2,281</b>	<b>77,469</b>	<b>12,399</b>	<b>89,868</b>
<b>Balance at 1 January 2016</b>	<b>9,785</b>	<b>4,974</b>	<b>60,429</b>	<b>2,281</b>	<b>77,469</b>	<b>12,399</b>	<b>89,868</b>
Other comprehensive income	-	-	-	1,880	1,880	(107)	1,773
Profit for the year	-	-	7,963	-	7,963	(255)	7,708
<b>Total comprehensive income for 2016</b>	<b>-</b>	<b>-</b>	<b>7,963</b>	<b>1,880</b>	<b>9,843</b>	<b>(362)</b>	<b>9,481</b>
Dividend	-	-	(5,500)	-	(5,500)	(6,082)	(11,582)
<b>Balance at 31 December 2016</b>	<b>9,785</b>	<b>4,974</b>	<b>62,892</b>	<b>4,161</b>	<b>81,812</b>	<b>5,955</b>	<b>87,767</b>

Retained earnings are USD 81,827 thousand or EUR 62,892 thousand (2015: USD 79,114 thousand or EUR 60,429 thousand), of which USD 77 thousand or EUR 63 thousand (2015: USD 77 thousand or EUR 63 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Egons Mednis  
Chairman of the Board  
28 April 2016

Kristine Paule  
Chief accountant

## Consolidated statement of cash flows

	Note	2016 USD'000	2015 USD'000	2016 EUR'000	2015 EUR'000
<b>Operating activities</b>					
Profit before tax from continuing operations		10,846	26,334	9,801	23,736
Non-cash adjustments to reconcile profit before tax to net cash flows					
Depreciation of property, plant and equipment	16	829	632	749	570
Amortisation of intangible assets	15	10	14	9	12
Finance income	10	(518)	(549)	(468)	(494)
Finance costs	10	11,669	9,148	10,544	8,245
Fair value (gain)/losses on derivative financial instruments, net	25	3,740	(3,125)	3,686	(2,826)
Movements in provisions and allowances		-	(163)	-	(134)
Working capital adjustments:					
Decrease/(Increase) in trade and other receivables		(80,291)	(6,294)	(70,062)	(13,101)
Decrease/(Increase) in inventories		(41,822)	15,447	(28,274)	8,352
(Decrease) in trade and other payables		76,113	(40,071)	59,582	(34,402)
Interest received		518	549	468	494
Income tax paid		(2,316)	(3,158)	(2,093)	(4,127)
<b>Net cash flows (used in)/ operating activities</b>		<b>(21,222)</b>	<b>(1,236)</b>	<b>(16,058)</b>	<b>4,177</b>
<b>Investing activities</b>					
Proceeds from sale of property, plant and equipment		55	-	52	13
Purchases of property, plant and equipment	16	(1,395)	(804)	(1,187)	(738)
Purchases of intangible assets	15	(102)	(333)	(97)	(306)
Proceeds from cash deposits	20	(1,000)	-	(949)	-
Loans repaid/(issued)	17	-	(1,730)	-	(1,779)
<b>Net cash flows (used in)/from investing activities</b>		<b>(2,442)</b>	<b>(2,867)</b>	<b>(2,181)</b>	<b>(2,810)</b>
<b>Financing activities</b>					
Proceeds from bank overdrafts, net		33,781	10,764	27,653	16,990
Dividends paid to equity holders of the parent		(6,100)	(451)	(5,500)	(415)
Dividends paid to the Minority shareholders		(6,763)	(3,776)	(6,082)	(3,451)
Interest paid	10	(11,669)	(9,148)	(10,544)	(8,245)
<b>Net cash flows (used in) / from financing activities</b>		<b>9,249</b>	<b>(2,611)</b>	<b>5,527</b>	<b>4,879</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(14,415)</b>	<b>(6,714)</b>	<b>(12,712)</b>	<b>(2,108)</b>
Cash and cash equivalents at beginning of the year		31,958	38,672	29,354	31,462
<b>Cash and cash equivalents at end of the year</b>		<b>17,543</b>	<b>31,958</b>	<b>16,642</b>	<b>29,354</b>

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Egons Mednis  
Chairman of the Board  
28 April 2017

Kristine Paule  
Chief accountant

## 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 28 April 2017 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	
		31.12.2016	31.12.2015
		%	%
ALMA LLC	Russia	100%	100%
ELKO Eesti OU	Estonia	100%	100%
ELKO Lietuva UAB	Lithuania	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%
ELKO Trading Switzerland AG	Switzerland	100%	100%
ELKOTech Romania SRL*	Romania	100%	100%
ELKO Kazakhstan LLP	Kazakhstan	100%	100%
ELKO Ukraine LLC	Ukraine	100%	100%
ELKOTEX d.o.o.	Slovenia	51%	51%
WESTech s.r.o.	Slovakia	51%	51%
ELKO Mobile Limited	Cyprus	51%	51%
WESTech CZ s.r.o.	Czech Republic	51%	51%

\*On 29 of August 2016 AS „ELKO Grupa” decided to increase share capital of ELKOTech Romania SRL to RON 16,000,000 (2015. RON 10,700,000). ELKOTech Romania SRL share capital is RON 16,000,000.

## 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 USD and all values are rounded to the nearest thousand (€/USD'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 2016.

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 is 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.

## 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 USD and 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 USD/EUR for presenting the financial statements.

### Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into the USD 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 USD/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. The goods on which the title has not been passed to client are recognized as consignemt stock and revenue is recognized only when the respecitive goods are sold to the end customers.

### 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.

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 Group Companies are operating are:

Latvia – 15%  
 Russia – 20%  
 Ukraine – 18%  
 Slovakia – 22%  
 Romania – 16%  
 Cyprus – 12.5%  
 Switzerland – 7.8%

Tax loss carry forward periods

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

## 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

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

#### *Subsequent measurement*

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

#### *Loans and receivables*

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

#### *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
Leasehold improvements	3-5 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 2016 and 2015 the Group had no borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

## 2.9 Intangible assets

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

## 2.9 Intangible assets (continued)

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

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

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

## 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 or amortization, 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.

## 2.18 Going concern

Despite positive results in 2016 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 indications that the market will recover in nearest the 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 are passed to customers the Group 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 Group 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 2016 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by the 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 amended IFRSs which have been adopted by the AS ELKO GRUPA as of 1 January 2016:

- **Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative***

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has not made use of this amendment.

**Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations***

The amendment is effective for annual periods 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. The Group has no transactions in scope of this amendment.

The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements

- 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*.

- The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements .

- 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*.

### 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 2016 amounted to USD 11,624 thousand or EUR 11,028 thousand (2015: USD 24,552 thousand or EUR 22,550 thousand) based on the individual vendor agreements. Vendor programs are recognized in trade payables (Note 23).

#### 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 (Note 12).

#### 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. In 2016 no impairment on inventory was recognized.

#### 3.4 Impairment of 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 standards

### 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:

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 01.01.2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 for the financial year beginning as of 1 January 2018 and is currently assessing the impacts of its adoption on the consolidated financial statements.

Based on preliminary assessment made by the Management, implementation of the standard is expected to have limited or no impact because the Group has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables, derivatives and bank loans taken. Considering that historically there have been very rare cases of impairments of receivables transferring from incurred credit loss model to expected credit loss model is considered to have limited or no impact to the Group's financial statements. More detailed assessment will be made in 2017.

**IFRS 15 *Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2018)

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.

The Group plans to adopt the standard for the financial year beginning as of 1 January 2018 retrospectively, i.e. the comparable period will be presented in accordance with IFRS 15.

Currently, it is expected that changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition, will be minimal. Based on the preliminary analyses performed, the Group does not expect significant impacts on its Consolidated Financial Statements as the Group does not have long-term contracts with multi-element arrangements, no take-or-pay agreements, no sales incentives are provided, no contract costs are generally incurred or upfront payments made, contract modifications are rare etc. Detailed analysis on implementation of the standard will be made in 2017.

**IFRS 15: *Revenue from Contracts with Customers (Clarifications)*** (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.



## 4.1 Standards issued but not yet effective (continued)

Detailed analysis on implementation of IFRS 15 and its clarifications will be made in 2017.

**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. The Group will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and is currently assessing the impacts of its adoption on the consolidated financial statements.

Based on preliminary assessment made by the Management, implementation of the standard is expected to have an effect on the Group's financial statements because the Group has a number of ground lease agreements signed, varying from 20-99 years. These lease agreements have currently been classified as operating leases. Upon implementation of IFRS 16, among other considerations, the Group will make an assessment on the identified lease assets, non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments, termination option penalties etc). It is expected that right of use assets and lease liabilities will be recognized in the consolidated statement of financial position, significantly increasing the Group's total assets. Detailed analysis on implementation of IFRS 16 will be made in 2017 and 2018.

**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.

**IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 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** (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

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.

## 4.1 Standards issued but not yet effective (continued)

**Amendments to IAS 40: Transfers to Investment Property** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The implementation of this standard will not have any impact on the Group.

**IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The implementation of this standard will not have any impact on the Group.

## 4.2 Improvements to IFRSs

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

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.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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.

#### 5.1.1 Market risk

##### Geopolitical risk

Significant part of the Group revenues are generated from sales to Russia and Ukraine as disclosed in Note 6 *Information about operating segments (Sales to CIS region of which 99% are covered by Russia and Ukraine)*. Political tension between Russia and Ukraine has destabilized East European region. Russia has seen recession for the past two years which was caused by low oil prices and Western economic sanctions and since then ruble towards USD dollar has deteriorated by 50%. Amid Russia/Ukraine political conflict and war real GDP fell by 15.9% in 2014-2015. Since the end 2014 Ukrainian hryvnia has devaluated by 70% towards US dollar. Despite continuous support from Western countries the increase in inflation and steep devaluation of currency has decreased the purchasing power in Ukraine. These and any further negative developments in between Russia and Ukraine could adversely impact results and financial position of the Group in a manner not currently determinable. To mitigate foreign currency translation risks the Company is purchasing the financial derivatives. Management is closely monitoring economic situation and developments in East European region To mitigate currency fluctuation risks, the financial derivatives are bought.

##### 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 USD 16,546 thousand or EUR 15,697 thousand (2015: USD 13,728 thousand or EUR 11,112 thousand).

To mitigate foreign currency translation risks the Company is purchasing the financial derivatives. The financial derivatives are mainly bought to mitigate risks from USD/RUB and USD/EUR currency pair fluctuations.

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, liabilities and translation of equities in subsidiaries).

### 5.1.1 Market risk (continued)

Increase / decrease in US dollar rate to EUR	Effect on profit USD ('000)	Effect on equity USD ('000)
<b>2016</b>		
+5%	(76)	(799)
-5%	76	799
<b>2015</b>		
+5%	(883)	(3,678)
-5%	883	3,678
Increase / decrease in US dollar rate to EUR	Effect on profit EUR ('000)	Effect on equity EUR ('000)
<b>2016</b>		
+5%	287	2,222
-5%	(287)	(2,222)
<b>2015</b>		
+5%	63	2,584
-5%	(63)	(2,584)

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's current 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 2016, 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 (USD'000)
<b>2016</b>	+10	+58
	- 10	-58
<b>2015</b>	+10	+37
	- 10	-37
	Increase / decrease in basis points	Effect on profit before tax (EUR'000)
<b>2016</b>	+10	+55
	-10	-55
<b>2015</b>	+10	+33
	- 10	-33

### 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 2016 is USD 219,182 thousands or EUR 207,934 thousands (2015: USD 154,923 or EUR 142,301 thousand).

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

As at 31 December, 2016 the Group's credit risk exposure to its cooperation partners in CIS region was 28 % of total trade receivables (2015: 42%).

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 2016 based on contractual undiscounted payments in USD'000:

<b>Year ended 31/12/2016</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Non-current borrowings	-	-	-	23	23
Bonds	-	-	-	9,108	9,108
Current borrowings	-	5,004	113,709	-	118,713
Trade and other payables	-	274,464	-	-	274,464
Derivative financial instruments	-	1,078	-	-	1,078

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted payments in USD'000:

<b>Year ended 31/12/2015</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
Non-current borrowings	-	-	-	73	73
Bonds	-	-	-	9,406	9,406
Current borrowings	-	1,818	77,900	-	79,718
Trade and other payables	-	195,599	-	-	195,599

### 5.1.3. Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted payments in EUR'000:

Year ended 31/12/2016	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	22	22
Bonds	-	-	-	8,640	8,640
Current borrowings	-	4,747	107,873	-	112,620
Trade and other payables	-	276,227	-	-	276,227
Derivative financial instruments	-	1,023	-	-	1,023

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted payments in EUR'000:

Year ended 31/12/2015	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	67	67
Bonds	-	-	-	8,640	8,640
Current borrowings	-	1,670	71,554	-	73,224
Trade and other payables	-	179,662	-	-	179,662

### 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.

### 5.1.5. Related party transaction compliance risk

The Group to make sales of goods to its final customers is performing a significant number of intra-group transactions. Group's entities are operating in the IT distribution/wholesales industry and operate as distributors, wholesalers and limited risk wholesalers. Being present in various jurisdictions, Group's entities must comply with respective country's tax legislation and rulings. In order to meet the requirements of different jurisdictions, pricing models are evaluated on a regular basis for compliance.

## 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

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

- 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).

### 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 the capital issue if the equity of the parent company falls below 50% of share capital.

	31.12.2016. USD '000	31.12.2015. USD '000	31.12.2016. EUR '000	31.12.2015. EUR '000
<b>Parent company financials</b>				
Share capital	11,114	11,114	9,785	9,785
Total equity	59,287	58,115	56,244	53,380
<b>Total equity/ Share capital</b>	<b>533%</b>	<b>523%</b>	<b>575%</b>	<b>546%</b>

According to loan covenants the Group's net debt/ equity ratio should not exceed 1. During the year 2016 the Group was in breach of the debt/ equity covenant. The Company has received the waiver letters on covenant breach from all major banks.

The Group monitors capital using the following ratio:

	31.12.2016. USD '000	31.12.2015. USD '000	31.12.2016. EUR '000	31.12.2015. EUR '000
<b>Consolidated financials</b>				
Net Debt*	100,856	53,660	95,680	49,289
Total equity	92,515	97,839	87,767	89,868
<b>Net Liabilities/ Equity</b>	<b>1.09</b>	<b>0.55</b>	<b>1.09</b>	<b>0.55</b>

\* 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 it 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 2016 are as follows:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	108,393	495,697	855,826	-	1,459,916
Inter-segment revenue	310,084	1,870	110,064	(422,018)	-
<b>Revenue</b>	<b>418,477</b>	<b>497,566</b>	<b>965,890</b>	<b>(422,018)</b>	<b>1,459,916</b>
Operating profit / Segment result	5,979	12,288	6,313	(2,583)	21,997
Impairment/ reversal of impairment of doubtful debtors	(74)	(74)	(175)	-	(323)

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

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	106,328	385,093	772,599	-	1,264,020
Inter-segment revenue	271,693	-	113,532	(385,225)	-
<b>Revenue</b>	<b>378,021</b>	<b>385,093</b>	<b>886,131</b>	<b>(385,225)</b>	<b>1,264,020</b>
Operating profit / Segment result	2,603	9,604	24,517	(1,791)	34,933
Impairment/ reversal of impairment of doubtful debtors	(97)	(510)	(22)	-	(629)

The segment results for the year ended 31 December 2016 are as follows:

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	97,943	447,905	773,314	-	1,319,162
Inter-segment revenue	280,188	1,689	99,452	(381,330)	-
<b>Revenue</b>	<b>378,130</b>	<b>449,595</b>	<b>872,767</b>	<b>(381,330)</b>	<b>1,319,162</b>
Operating profit / Segment result	5,403	11,104	5,704	(2,334)	19,877
Impairment/ reversal of impairment of doubtful debtors	(67)	(67)	(157)	-	(291)

## 6 Operating segment information (continued)

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

	The Baltic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	95,833	347,083	696,340	-	1,139,256
Inter-segment revenue	244,876	-	102,326	(347,202)	-
<b>Revenue</b>	<b>340,709</b>	<b>347,083</b>	<b>798,666</b>	<b>(347,202)</b>	<b>1,139,256</b>
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)

<sup>1)</sup> All of sales are done from Domicile country – Latvia.

<sup>2)</sup> 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 2016 and capital expenditure for the year ended are as follows:

	The Baltic <sup>1)</sup>		Central and Eastern Europe		CIS		Adjustments and eliminations <sup>2)</sup>		Group	
	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000
Inventory	29,342	27,836	68,302	64,797	166,324	157,788	-	-	263,968	250,420
Trade and other receivables	39,319	37,301	28,460	27,002	125,465	119,026	3,780	3,585	197,024	186,914
Other assets	143,534	136,167	17,882	16,964	64,139	60,847	(198,515)	(188,328)	27,040	25,651
Total Assets	212,195	201,304	114,644	108,763	355,928	337,661	(194,735)	(184,743)	488,032	462,985
Liabilities	150,593	142,864	60,247	57,155	279,467	265,124	(94,790)	(89,925)	395,517	375,218
Capital expenditure (Note 15)	2	97	-	-	100	-	-	-	102	97
Amortisation (Note 15)	9	8	1	1	-	-	-	-	10	9
Capital expenditure (Note 16)	537	488	466	424	494	463	-	-	1,497	1,375
Depreciation (Note 16)	388	345	382	360	59	55	-	-	829	760

The segment assets and liabilities at 31 December 2015 and capital expenditure for the year ended are as follows:

	The Baltic <sup>1)</sup>		Central and Eastern Europe		CIS		Adjustments and eliminations <sup>2)</sup>		Group	
	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000
Inventory	25,922	23,810	60,744	55,795	135,819	124,753	(339)	(311)	222,146	204,047
Trade and other receivables	21,946	20,158	23,809	21,869	127,907	117,486	(57,093)	(52,441)	116,569	107,072
Other assets	134,295	123,353	11,057	10,156	35,769	32,855	(138,379)	(127,105)	42,742	39,259
Total Assets	182,163	167,321	95,610	87,820	299,495	275,094	(195,811)	(179,857)	381,457	350,378
Liabilities	123,235	113,195	80,924	74,331	268,549	246,669	(189,090)	(173,685)	283,618	260,510
Capital expenditure (Note 15)	333	306	-	-	-	-	-	-	333	306
Amortisation (Note 15)	9	8	5	4	-	-	-	-	14	12
Capital expenditure (Note 16)	427	392	341	313	36	33	-	-	804	738
Depreciation (Note 16)	284	256	310	280	38	34	-	-	632	570

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

## 6 Operating segment information (continued)

<sup>2)</sup> 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.

## 7 Sale of goods

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Mobile Solutions	177,478	153,352	160,367	138,216
Desktop Solutions	243,523	211,048	220,044	190,216
Smartphones and Tablets	778,310	671,934	703,271	605,613
Server & Security Solutions	145,267	125,641	131,261	113,240
Consumer and Multimedia	94,982	84,218	85,825	75,904
Software	20,356	17,827	18,394	16,067
	<b>1,459,916</b>	<b>1,264,020</b>	<b>1,319,162</b>	<b>1,139,256</b>

## 8 Expenses by nature

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Trade inventory sold	1,404,818	1,205,935	1,269,377	1,086,904
Employee benefit expense (Note 11)	13,386	11,110	12,096	10,016
Rent and office maintenance expenses	3,842	3,424	3,472	3,084
Warehousing expenses	1,455	1,402	1,315	1,263
Transportation expenses	3,366	1,753	3,041	1,579
Advertising costs	1,013	448	915	403
Professional fees	1,409	1,366	1,273	1,231
Depreciation and amortisation charges (Notes 15, 16)	839	646	758	582
Write-off of damaged goods (Note 18)	308	415	278	373
Other expenses	4,112	3,472	3,715	3,132
	<b>1,434,548</b>	<b>1,229,971</b>	<b>1,296,240</b>	<b>1,108,567</b>

## 9 Other income/expenses

### 9.1 Other operating income

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Net gain from foreign exchange	-	1,148	-	1,035
Income from services provided	144	297	130	268
Net Income from sale of property, plant and equipment	55	6	50	5
Other income	77	158	69	143
	<b>276</b>	<b>1,609</b>	<b>249</b>	<b>1,451</b>

## 9.2 Other operating expenses

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Allowance for bad debts (Note 19)	(323)	(629)	(291)	(567)
Net loss from foreign exchange influence	(3,311)	-	(2,991)	-
Other expenses	(13)	(96)	(12)	(86)
	<b>(3,647)</b>	<b>(725)</b>	<b>(3,294)</b>	<b>(653)</b>

## 10 Finance income and costs

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Interest expense:				
– Bank and bond borrowings	(11,316)	(8,974)	(10,225)	(8,088)
– Other interests	(353)	(174)	(319)	(157)
Finance costs	<b>(11,669)</b>	<b>(9,148)</b>	<b>(10,544)</b>	<b>(8,245)</b>
Finance income:				
– Interest income on short-term bank deposits	241	31	218	28
– Penalties and other interest income	277	518	250	466
Finance income	<b>518</b>	<b>549</b>	<b>468</b>	<b>494</b>
Net finance costs	<b>(11,151)</b>	<b>(8,599)</b>	<b>(10,076)</b>	<b>(7,751)</b>

## 11 Employee benefit expense

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Wages and salaries	10,360	8,954	9,362	8,074
Social security costs	2,441	2,007	2,206	1,809
Other employment benefits	585	149	528	133
	<b>13,386</b>	<b>11,110</b>	<b>12,096</b>	<b>10,016</b>

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

All personal expenses have been charged in statement of comprehensive income and are shown in administrative expenses.

## 12 Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

### Consolidated statement of comprehensive income

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
<b>Current income tax:</b>				
Current income tax charge	2,316	4,493	2,093	4,050
<i>Deferred tax :</i>				
Relating to origination and reversal of temporary differences	-	-	-	-
	<b>2,316</b>	<b>4,493</b>	<b>2,093</b>	<b>4,050</b>

## 12 Income tax (continued)

### Consolidated statement of financial position

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Current income tax receivable	2,307	2,471	2,188	2,270
Current income tax payable	(576)	(2,401)	(547)	(2,205)
<b>Current income tax receivable, net</b>	<b>1,731</b>	<b>70</b>	<b>1,641</b>	<b>65</b>

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:

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
<b>Accounting profit before income tax</b>	<b>10,846</b>	<b>26,334</b>	<b>9,801</b>	<b>23,736</b>
At Latvia's statutory income tax rate of 15%	1,627	3,950	1,470	3,560
Effect of different tax rates in other countries	(298)	(449)	(270)	(404)
Unrecognized deferred tax asset, net	972	969	879	873
Expenses not deductible for tax purposes	15	24	14	21
Tax discount for donations	-	(1)	-	-
<b>Tax charge</b>	<b>2,316</b>	<b>4,493</b>	<b>2,093</b>	<b>4,050</b>

The summary of unused tax losses are as follows:

409 thousand USD (369 thousand EUR) that can be used till 2026

106 thousand USD (97 thousand EUR) that can be used till 2024

6,090 thousand USD (5,503 thousand EUR) that can be used till 2021

3,256 thousand USD (3,186 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:

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
Profit attributable to equity holders of the Parent Company	8,813	12,541	7,963	11,304
Weighted average number of ordinary shares in issue (thousands)	9,785	9,785	9,785	9,785
Basic earnings per share (EUR/USD per share)	0.90	1.28	0.81	1.16

## 14 Dividends per share

During the year the Company has paid out dividends on prior year retained earnings in amount of USD 6,100 thousand or EUR 5,500 thousand (USD 0.62 or EUR 0.56 per share).

## 15 Intangible assets

	Software		Goodwill		Total	
<b>At 31 December 2014</b>	<b>USD '000</b>	<b>EUR '000</b>	<b>USD '000</b>	<b>EUR '000</b>	<b>USD '000</b>	<b>EUR '000</b>
Cost	760	606	-	-	760	606
Accumulated amortisation	(621)	(491)	-	-	(621)	(491)
<b>Net book amount at 31 December 2014</b>	<b>139</b>	<b>115</b>	<b>-</b>	<b>-</b>	<b>139</b>	<b>115</b>
<b>2015</b>						
Opening net book amount	139	115	-	-	139	115
Exchange differences	(20)	(7)	-	-	(20)	(7)
Additions	6	6	327	300	333	306
Amortisation charge	(14)	(12)	-	-	(14)	(12)
<b>Closing net book amount at 31 December 2015</b>	<b>111</b>	<b>102</b>	<b>327</b>	<b>300</b>	<b>438</b>	<b>402</b>
<b>At 31 December 2015</b>						
Cost	590	542	327	300	917	842
Accumulated amortisation	(479)	(440)	-	-	(479)	(440)
<b>Net book amount at 31 December 2015</b>	<b>111</b>	<b>102</b>	<b>327</b>	<b>300</b>	<b>438</b>	<b>402</b>
<b>2016</b>						
Opening net book amount	111	102	327	300	438	402
Exchange differences	(9)	(6)	(11)	-	(20)	(6)
Additions	102	97	-	-	102	97
Amortisation charge	(10)	(9)	-	-	(10)	(9)
<b>Closing net book amount 31 December 2016</b>	<b>194</b>	<b>184</b>	<b>316</b>	<b>300</b>	<b>510</b>	<b>484</b>
<b>At 31 December 2016</b>						
Cost	692	639	316	300	1008	939
Accumulated amortisation	(498)	(455)	-	-	(498)	(455)
<b>Net book amount at 31 December 2016</b>	<b>194</b>	<b>184</b>	<b>316</b>	<b>300</b>	<b>510</b>	<b>484</b>

Amortisation expenses of intangible assets in the amount of USD 10 thousand or EUR 9 thousand (2015: USD 14 thousand or EUR 12 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses. The cost of fully amortised intangible assets at 31 December 2016 was USD 290 thousand or EUR 275 thousand (2015: USD 294 thousand or EUR 270 thousand).

On 2 June 2015, AS ELKO Grupa signed an agreement with DL Distributors OU on the acquisition of DELL business in Estonia for the amount of EUR 300,000. With the acquisition of "DL Distributors" OU business, ELKO Group expand its product portfolio in the Baltics and was granted with DELL distribution rights also in Latvia and Lithuania. Goodwill is the purchase price paid for distribution rights. Goodwill is reviewed annually by reviewing DELL product turnover, gross margin and operating profit margin for DELL products. All intangible assets have been pledged to secure bank credit lines (Note 22).

## 16 Property, plant and equipment

	Leashold improve- ments		Communication and computer engineering		Other fixed assets		Total	
	USD '000	EUR '000	USD '000	EUR '000	USD '000	EUR '000	USD '000	EUR '000
<b>At 31 December 2014</b>								
Cost	41	31	1,788	1,305	2,284	1,742	4,113	3,078
Accumulated depreciation	(28)	(21)	(1,565)	(1,121)	(1,387)	(1,003)	(2,980)	(2,145)
<b>Net book amount at 31 December 2014</b>	<b>13</b>	<b>10</b>	<b>223</b>	<b>184</b>	<b>897</b>	<b>739</b>	<b>1133</b>	<b>933</b>
<b>2015</b>								
Opening net book amount	13	10	223	184	897	739	1133	933
Exchange differences	11	12	(14)	4	192	254	189	270
Additions	-	-	344	316	460	422	804	738
Disposals at cost	-	-	(17)	(15)	(35)	(31)	(52)	(46)
Depreciation reversal on disposals	-	-	16	14	21	19	37	33
Depreciation charge	(9)	(8)	(208)	(187)	(415)	(375)	(632)	(570)
<b>Closing net book amount at 31 December 2015</b>	<b>15</b>	<b>14</b>	<b>344</b>	<b>316</b>	<b>1120</b>	<b>1028</b>	<b>1479</b>	<b>1358</b>
<b>At 31 December 2015</b>								
Cost	59	54	1,625	1,492	2,614	2,400	4,298	3,946
Accumulated depreciation	(44)	(40)	(1,281)	(1,176)	(1,494)	(1,372)	(2,819)	(2,588)
<b>Net book amount at 31 December 2015</b>	<b>15</b>	<b>14</b>	<b>344</b>	<b>316</b>	<b>1120</b>	<b>1028</b>	<b>1479</b>	<b>1358</b>
<b>2016</b>								
Opening net book amount	15	14	344	316	1120	1028	1,479	1,358
Exchange differences	31	30	(22)	(1)	13	135	22	164
Additions	62	57	353	321	980	809	1,395	1,187
Disposals at cost	-	-	(2)	(1)	-	-	(2)	(1)
Depreciation charge	(25)	(23)	(306)	(287)	(498)	(439)	(829)	(749)
<b>Closing net book amount 31 December 2016</b>	<b>83</b>	<b>78</b>	<b>367</b>	<b>348</b>	<b>1615</b>	<b>1533</b>	<b>2065</b>	<b>1959</b>
<b>At 31 December 2016</b>								
Cost	152	141	1,956	1,812	3,607	3,344	5,715	5,297
Accumulated depreciation	(69)	(63)	(1,589)	(1,464)	(1,992)	(1,811)	(3,650)	(3,338)
<b>Net book amount at 31 December 2016</b>	<b>83</b>	<b>78</b>	<b>367</b>	<b>348</b>	<b>1615</b>	<b>1533</b>	<b>2065</b>	<b>1959</b>

Depreciation expenses of tangible assets in the amount of USD 829 thousand or EUR 749 thousand (2015: USD 632 thousand or EUR 570 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 USD 1,156 thousand or EUR 1,097 thousand (2015: USD 1,382 thousand or EUR 1,269 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 2016 was USD 55 thousand or 52 EUR thousand (2015: USD 93 thousand or EUR 86 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.



## 17 Non current loans

	31.12.2016. USD '000	31.12.2015. USD '000	31.12.2016. EUR '000	31.12.2015. EUR '000
Loan to AST Balt *	3,611	3,730	3,426	3,426
	<b>3,611</b>	<b>3,730</b>	<b>3,426</b>	<b>3,426</b>

\* 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. Fair value is disclosed in Note 26

## 18 Inventories

	31.12.2016. USD '000	31.12.2015. USD '000	31.12.2016. EUR '000	31.12.2015. EUR '000
Trade inventory	234,323	193,982	222,297	178,178
Trade inventory in transit	29,550	26,311	28,033	24,167
Prepayments for trade inventory	95	1,853	90	1,702
<b>Total inventories at the lower of cost and net realisable value</b>	<b>263,968</b>	<b>222,146</b>	<b>250,420</b>	<b>204,047</b>

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 USD 308 thousand or EUR 278 thousand (2015: USD 415 thousand or EUR 373 thousand) and are charged to transportation costs in the statement of comprehensive income (Note 8).

The cost of inventories recognised as expense and included in cost of sales amounted to USD 1,567,663 thousand or EUR 1,416,522 thousand (2015: USD 1,264,020 thousand or EUR 1,139,256 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group constitute USD 9,910 thousand (2015: USD 8,724 thousand) or EUR 9,401 thousand (2015: EUR 7,868 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 2016 were USD 92,786 thousand or EUR 88,023 thousand (2015: USD 100,730 thousand or EUR 92,522 thousand).

## 19 Trade and other receivables and prepayments

	31.12.2016. USD '000	31.12.2015. USD '000	31.12.2016. EUR '000	31.12.2015. EUR '000
Trade receivables	171,016	97,339	162,239	89,409
Less: allowance for impairment of trade receivables	(229)	(340)	(217)	(312)
Trade receivables – net	<b>170,787</b>	<b>96,999</b>	<b>162,022</b>	<b>89,097</b>
Advances to suppliers	19,261	10,445	18,273	9,594
VAT receivable	3,521	3,229	3,340	2,966
Other debtors	2,464	4,570	2,338	4,198
Custom prepayments	528	771	501	708
Debt on factoring	285	313	271	287
Bond commissions	101	162	96	149
Other tax receivable in foreign countries	58	62	55	57
Accrued income	19	18	18	16
	<b>197,024</b>	<b>116,569</b>	<b>186,914</b>	<b>107,072</b>

All trade receivables have been pledged to secure bank credit lines (Note 22).

## 19 Trade and other receivables (continued)

Trade receivables are non-interest bearing and are generally on 7-90 days' terms. There is no overdue other debtors.

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

	Total	Neither past due nor impaired	Past due but not impaired		
			<90 day	90-180 day	>180 day
<b>31.12.2016.</b>					
<b>USD '000</b>	170,787	168,257	2,398	87	45
<b>31.12.2015.</b>					
<b>USD '000</b>	96,999	95,092	1,671	229	7
<b>31.12.2016.</b>					
<b>EUR '000</b>	162,022	159,622	2,275	83	42
<b>31.12.2015.</b>					
<b>EUR '000</b>	89,097	87,345	1,536	210	6

Based on further business performance of the debtors in 2017 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:

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
<b>At 1 January</b>	340	371	312	306
Impairment charge	323	629	291	567
Used allowances	(434)	(660)	(386)	(561)
<b>At 31 December</b>	<b>229</b>	<b>340</b>	<b>217</b>	<b>312</b>

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

	31.12.2016. USD '000	31.12.2016. EUR '000	31.12.2015. USD '000	31.12.2015. EUR '000
Cash at banks and on hand	17,543	16,642	31,958	29,354
Deposits more than 3 months	1,000	949	-	-
	<b>18,543</b>	<b>17,591</b>	<b>31,958</b>	<b>29,354</b>

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 (2015: 9,785 thousand shares) with a par value of USD 1.1358 or EUR 1.00 per share (2015: USD 1.1358 or EUR 1.00 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 USD 5,996 or EUR 4,974 thousand was created.

### **21.3 Foreign currency translation reserve**

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

## 22 Interest-bearing loans and borrowings

Current	Interest rate %	Maturity	31.12.2016. USD '000	31.12.2015. USD '000	31.12.2016. EUR '000	31.12.2015. EUR '000
<b>Obligations under finance lease</b>	EURIBOR3M +2.62%	2017./2019.	77	53	73	49
<b>Bank loans and credit lines</b>						
Credit line from Swedbank (USD facility)	USD LIBOR3M +3.5%	05.11.2017.	731	5,209	694	4,785
Credit line from Promsvyazbank PJSC (RUB facility)	12%-40% Overnight LIBOR	23.12.2016.	-	13,495	-	12,396
Credit line from Nordea Bank Finland plc	USD/EONIA EUR +3.20%	31.07.2017.	23,229	23,636	22,036	21,710
Credit line from AS SEB Banka	USD LIBOR3M +2.95%	31.07.2017.	24,839	23,330	23,564	21,429
Credit line from OP Corporate Bank plz	USD LIBOR3M +3.0%	28.07.2017.	14,968	-	14,200	-
Credit line from Transilvania Bank (Romania)	RON ROBOR6M +2.5%	29.03.2017.	8,691	6,548	8,245	6,014
Credit line from Transilvania Bank (Romania)	RON ROBOR6M +2.5%	13.10.2017.	791	-	751	-
SBERBANK Slovensko a.s. (Slovenia)	EURIBOR1M +1.2%	30.04.2017.	369	327	351	300
Trade finance facility OTP Ukraine	23-26%	29.03.2019.	4,459	4,239	4,230	3,894
Credit line VTB Bank (Russia)	13.5%	28.12.2018.	16,393	-	15,552	-
Promsvyazbank PJSC Cyprus Branch (Russia)	8%-20%	31.08.2018.	16,394	-	15,552	-
<b>Other loans:</b>						
Other - credit cards			6	3	5	3
			<b>110,947</b>	<b>76,840</b>	<b>105,253</b>	<b>70,580</b>
<b>Non-current</b>						
<b>Bonds *</b>	8%	16.10.2018.	8,433	8,709	8,000	8,000
<b>Obligations under finance lease and hire purchase contracts</b>	EURIBOR3M +2.62%	2017./2019.	19	69	18	63
			<b>8,452</b>	<b>8,778</b>	<b>8,018</b>	<b>8,063</b>
			<b>119,399</b>	<b>85,618</b>	<b>113,271</b>	<b>78,643</b>

## 22 Interest-bearing loans and borrowings (continued)

\* On 16 October, 2015 the Company issued the bonds for EUR 8 million, with maturity on 16 October, 2018. Coupon rate of the bonds is 8% per annum. At the year end debt securities (bonds) are recorded at nominal value. Fair value is disclosed in Note 26.

On March 21, 2016, the Company listed the bonds on NASDAQ stock exchange in Riga.

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

	<b>31.12.2016.</b>	<b>31.12.2015.</b>	<b>31.12.2016.</b>	<b>31.12.2015.</b>
	<b>USD '000</b>	<b>USD '000</b>	<b>EUR '000</b>	<b>EUR '000</b>
USD	59,697	52,195	56,633	47,943
RUB	32,787	13,495	31,104	12,395
EUR	12,937	9141	12,274	8,396
RON	9,482	6,548	8,995	6,015
UAH	4,496	4,239	4,265	3,894
	<b>119,399</b>	<b>85,618</b>	<b>113,271</b>	<b>78,643</b>

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 2016 was 6.1% (2015: 5.7%). Fair values are disclosed in Note 26

As at December 31, 2016 the Group had following undrawn available financing facilities:

	<b>USD'000</b>	<b>EUR'000</b>
BANCA TRANSILVANIA (Romania)	945	897
Credit line from Nordea Bank Finland plc	7,270	6,897
Credit line from OP Corporate Bank plc Latvia	31	29
Credit line from AS SEB Banka	161	153
Credit line from AS SWEDBANKA	6,769	6,422
Credit line from Volksbank a.s. (Slovakia)	2,899	2,750
Credit line from SKB D.D. (Slovenia)	169	160
Credit line from NLB D.D. (Slovenia)	95	90
	<b>18,339</b>	<b>17,398</b>

## 23 Trade and other payables

	<b>31.12.2016.</b>	<b>31.12.2015.</b>	<b>31.12.2016.</b>	<b>31.12.2015.</b>
	<b>USD '000</b>	<b>USD '000</b>	<b>EUR '000</b>	<b>EUR '000</b>
Trade payables	256,757	169,375	243,579	155,575
Advances received	11,628	17,181	11,031	15,781
Social security and other taxes	1,958	1,919	1,858	1,763
Unpaid salaries	327	110	310	101
Accrued expenses	1,799	5,179	1,707	4,757
Other	1,995	1,835	1,892	1,685
	<b>274,464</b>	<b>195,599</b>	<b>260,377</b>	<b>179,662</b>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 90 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

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
<b>Beginning of year</b>	-	163	-	163
Charged / (credited) to the statement of comprehensive income	-	-	-	-
- Used during year	-	(163)	-	(163)
<b>End of year</b>	-	-	-	-

Provisions represent expected costs about handling warranty process of the sold goods.

## 25 Derivative financial assets and financial liabilities

### 25.1 Financial assets

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
<b>Financial instruments at fair value through profit or loss</b>				
Derivatives not designated as hedges	4	2,666	3	2,449
- Foreign exchange forward contracts				
<b>Total instruments at fair value through profit or loss</b>	<b>4</b>	<b>2,666</b>	<b>3</b>	<b>2,449</b>
	<b>31.12.2016.</b>	<b>31.12.2015.</b>	<b>31.12.2016.</b>	<b>31.12.2015.</b>
	<b>USD '000</b>	<b>USD '000</b>	<b>EUR '000</b>	<b>EUR '000</b>
<b>Total financial assets</b>	<b>4</b>	<b>2,666</b>	<b>3</b>	<b>2,449</b>

On December 31, 2016 was entered into foreign exchange forward contracts for the sale of RUB against USD 1,777 million RUB amount (RUB 3,288 million in 2015) with an average term of 23 days and the sale of RON against USD 17.0 million RON amount (in 2015 RON 3.6 million) with a maturity of 30 March 2017. Foreign exchange forward contracts are valued at the fair value which is calculated at market rates.

2016 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

	2016 USD '000	2015 USD '000	2016 EUR '000	2015 EUR '000
<b>Financial instruments at fair value through profit or loss</b>				
- Foreign exchange forward contracts	(1,078)	-	(1,023)	-
<b>Total instruments at fair value through profit or loss</b>	-	-	-	-
	<b>31.12.2016 USD '000</b>	<b>31.12.2015 USD '000</b>	<b>31.12.2016 EUR '000</b>	<b>31.12.2015 EUR '000</b>
<b>Total financial liabilities</b>	<b>1,078</b>	<b>-</b>	<b>1,023</b>	<b>-</b>

**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 Fair value measurement

### Fair value measurement hierarchy as at 31 December 2016

Financial liabilities for which fair values are disclosed:	Date of valuation	Total	Quoted prices in active markets		Fair value measurement using Significant observable inputs		Fair value measurement using Significant unobservable inputs	
			(Level 1) USD '000	(Level 1) EUR '000	(Level 2) USD '000	(Level 2) EUR '000	(Level 3) USD '000	(Level 3) EUR '000
<b>Assets measured at fair value:</b>								
Loans (Note 17)	31 December 2016	3,611	3,426	-	-	-	3,611	3,426
<b>Liabilities measured at fair value:</b>								
Bonds (Note 22)	31 December 2016	9,108	8,640	-	-	9,108	8,640	-
Obligations under finance lease (Note 22)	31 December 2016	96	91	-	-	96	91	-
Bank loans and credit line (Note 22)	31 December 2016	110,870	105,271	-	-	110,870	105,271	-
Derivative financial instruments (Note 25)	31 December 2016	1,078	1,023	-	-	1,078	1,023	-

## 26 Fair value measurement (continued)

Financial liabilities for which fair values are disclosed:	Date of valuation	Total		Quoted prices in active markets (Level 1)		Fair value measurement using Significant observable inputs (Level 2)		Fair value measurement using Significant unobservable inputs (Level 3)	
		USD '000	EUR '000	USD '000	EUR '000	USD '000	EUR '000	USD '000	EUR '000
<b>Assets measured at fair value:</b>									
Derivative financial instruments (Note 25)	31 December 2016	1,078	1,023	-	-	1,078	1,023	-	-
Derivative financial instruments (Note 25)	31 December 2015	-	-	-	-	-	-	-	-

### Fair value measurement hierarchy as at 31 December 2015

Financial liabilities for which fair values are disclosed:	Date of valuation	Total		Quoted prices in active markets (Level 1)		Fair value measurement using Significant observable inputs (Level 2)		Fair value measurement using Significant unobservable inputs (Level 3)	
		USD '000	EUR '000	USD '000	EUR '000	USD '000	EUR '000	USD '000	EUR '000
<b>Assets measured at fair value:</b>									
Loans (Note 17)	31 December 2015	3,730	3,426	-	-	-	-	3,730	3,426
<b>Liabilities measured at fair value:</b>									
Bonds (Note 22)	31 December 2015	9,406	8,640	-	-	9,406	8,640	-	-
Obligations under finance lease (Note 22)	31 December 2015	122	112	-	-	122	112	-	-
Bank loans and credit line (Note 22)	31 December 2015	76,787	70,531	-	-	76,787	70,531	-	-



## 27 Related party disclosures

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

	31.12.2016. USD	31.12.2015. USD	% of Share Capital 31.12.2016. EUR	31.12.2015. EUR
Ashington Business Inc. Ltd, domiciled in the United Kingdom	19.78	19.78	19.78	19.78
Solsbury Inventions Ltd, domiciled in the United Kingdom	19.71	19.71	19.71	19.71
Amber Trust II S.C.A., domiciled in Luxembourg	17.67	17.67	17.67	17.67
Eurotrail SIA, domiciled in Latvia	10.96	10.96	10.96	10.96
Whitebarn SIA, domiciled in Latvia	10.96	10.96	10.96	10.96
KRM Serviss, SIA, domiciled in Latvia	10.72	10.72	10.72	10.72
Solo investīcijas, SIA, domiciled in Latvia	10.20	10.20	10.20	10.20

### 27.1 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 USD 299 thousand or EUR 271 thousand (2015: USD 288 thousand or EUR 259 thousand).

	2016 USD '000	2016 EUR	2015 USD '000	2015 EUR
The Board members' remuneration:				
- salary expenses	242	219	239	215
- social insurance	57	52	49	44
	<b>299</b>	<b>271</b>	<b>288</b>	<b>259</b>

### 27.2 Transactions with related parties

The services in the amount of USD 1,712 thousand or EUR 1,549 thousand (2015: USD 1,649 thousand or EUR 1,479 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
SIA „AST Balts”*	<b>2016</b>				
	<b>USD '000</b>	1,712	21	-	3,611
	<b>2016</b>				
	<b>EUR '000</b>	1,549	20	-	3,426
	<b>2015</b>				
	<b>USD '000</b>	1,649	20	-	3,730
	<b>2015</b>				
	<b>EUR '000</b>	1,479	19	-	3,426

## 27 Related party disclosures (continued)

### 27.2 Transactions with related parties

\* 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.

## 28 Commitments and contingencies

### 28.1 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.

### 28.2 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.

## 29 Events after the reporting period

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 2016.

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Egons Mednis  
Chairman of the Board

28 April 2017

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Kristine Paule  
Chief accountant

**INDEPENDENT AUDITORS' REPORT**

## INDEPENDENT AUDITOR'S REPORT

To the shareholder of ELKO Grupa AS

### Opinion

We have audited the accompanying consolidated financial statements of ELKO Grupa AS and its subsidiaries (the Group) set out on pages 6 to 49 of the accompanying consolidated annual report, which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### Key audit matter

##### Revenue recognition

As disclosed in Note 6 *Operating segment information*, sales to CIS countries amount to 773 314 thousand EUR for the year 2016. Russia and Ukraine cover 99% of sales to CIS countries.

Several entities of the group are involved in sales in Russia and Ukraine (Alma OOO and Elko Ukraine TOB, Elko Trading Switzerland AG and Elko Mobile Limited). Elko Trading Switzerland AG and Elko Mobile Limited sell to the final customers through a number of intermediaries.

#### How we addressed the key audit matter

We performed the following procedures, among others:

- We performed the sales process walkthrough;
- We tested a sample of manual controls over the revenue recognition and measurement;
- We tested the relevant IT system controls over the revenue recording, calculation of amounts billed to the Group's customers and matching of cash receipts to the accounts of the Group's customers;
- We obtained agreements with significant intermediaries, assessed the main terms and conditions of respective agreements;
- We obtained an external customer confirmation from all intermediaries and confirmed trade receivable balances, the

During the year sales are recognized at the time invoice is issued. Based on the terms specified in the contracts, title to the goods shall be transferred to the intermediaries only after the payment for the goods has been made to the Group in full. In general the Group receives payments only after the intermediaries have sold the goods and received cash from the final customers. As a result, the Group considers that the intermediaries act as agents and the Group recognises sales only after the intermediaries have invoiced the goods to the final customers and received the payment. Accordingly, goods that have been invoiced to the intermediaries but for which payments have not been received at the end of the year are recognised as trade inventory in transit and the respective sales and trade receivable balances are adjusted correspondingly.

Revenue recognition for sales to Russia and Ukraine was significant to our audit due to the materiality of respective revenues to the consolidated financial statements where these revenues constitute 58% of the total sales carried out by the Group and the complex transfer of ownership of goods and respective revenue recognition.

#### **Geopolitical and currency risk**

As disclosed in Note 6 *Operating segment information*, sales to CIS countries amount to 773 314 thousand EUR for the period ending 31 December 2016. Russia and Ukraine cover 99% of sales to CIS countries.

As a result of the geopolitical tension in eastern Ukraine, the sanctions imposed by Western countries on Russian economy that followed the escalation of the military conflict in Ukraine as well as the decrease in oil prices, the economic conditions in the East European sub-region, including the respective countries, have been negatively affected starting from 2014.

Sales to the intermediaries by the Group are in USD or in local currencies (Russian rubbles and Ukrainian hryvnia). The final customers pay to the Group in local currencies. The conditions mentioned above have an adverse effect on both intermediaries and final customers' ability to purchase goods, settle debts as well could result in losses for the Group due to exchange rate fluctuations.

Geopolitical and currency risk was material to our audit due to the fact that a significant part of the Group revenues are generated from sales to Russia and Ukraine and if those markets further deteriorate it would have an adverse effect on Group's business volumes, recoverability of Group's receivables and losses of the Group from the changes in foreign currency exchange rates.

Group's stock held by the intermediaries' balances and reconciled turnovers for the reporting period;

- We participated in stock counts in January 2017 in the inventory locations of the intermediaries. We tested the existence of the Group's inventories held by the intermediaries;
- We tested a sample of revenue transactions at the end of the financial year for periodization;
- We assessed year-end corrections related to consignment goods and assessed the respective corrections made to trade receivables, stock, revenues and cost of sales.

We also assessed the adequacy of the revenue related disclosures included in Note 6 *Operating segment information* and Inventory related disclosures in Note 18 *Inventories* and Trade receivable related disclosures in Note 19 *Trade and other receivables and prepayments*.

We performed the following procedures, among others:

- We obtained an assessment on geopolitical and currency risks prepared by the Group's management and identified respective risk management principles;
- We tested receivables ageing and assessed provisions for bad debts that have been made for the entities selling in Russia and Ukraine;
- We reviewed subsequent payments from debtors for the entities selling in Russia and Ukraine;
- We reviewed Group's interim financial results for 1Q 2017, including the CIS business segment;
- We reviewed the Group's internal procedures in respect of the assessment of provisions for doubtful trade receivables;
- We performed analytical review procedures in respect of receivables ageing structure and year-to-year changes for unusual fluctuations;
- We discussed with the Group's management the procedures of managing foreign currency exchange risk.
- We performed analytical review procedures by forming an expectation of gains and losses arising from the changes in foreign currency exchange rate based on the currency exchange rate movements.

We evaluated adequacy of the Group's disclosures in relation to trade receivable related disclosures in Note 19 *Trade and other receivables and prepayments* and foreign exchange related disclosures in Note 5.1.1 *Market risk*

### Transactions with related parties

A significant part of the Group's revenue is earned through the involvement of related parties as disclosed in Note 5.1.5 *Related party transaction compliance risk*. Largest volumes of intragroup transactions are between Elko Group SIA and Elko Trading Switzerland.

Each company of the Group operates under different jurisdiction and applies its own pricing model to be compliant with the respective legal framework of the jurisdiction.

Transactions between related parties are significant for audit due to the materiality of revenue which is generated through related parties and the possible transfer pricing risk associated with transactions between related parties.

This was important to our audit due to the magnitude of the transactions and the possible transfer pricing risk associated with these transactions.

We performed following the procedures, among others:

- We performed the sales process walkthrough between related parties;
- We tested controls over sales process between related parties;
- We tested the relevant IT system controls over the sales transactions between related parties and correct margin application for related party transactions;
- We obtained the transfer pricing documentation prepared by Group. We involved Tax specialists to assess the key assumptions made by the Group's management;
- We assessed the application of the Group's transfer pricing documentation in executing the business transactions.

### Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of:

- the Management Report as set out on pages 4 to 5 of the accompanying consolidated annual report and
- the Statement of Corporate Governance for the year 2016, set out in separate statement provided by ELKO Grupa AS management and available on the ELKO Grupa AS website <http://www.elkogroup.com> section *Investor relations*,

but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia*

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.



In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the corporate governance report includes the information required in the clause 56.<sup>1</sup> first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.<sup>2</sup> second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in the 56.<sup>1</sup> first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.<sup>2</sup> second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Diāna Krišjāne.

Ernst & Young Baltic SIA  
Licence No. 17

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

Riga,

28 April 2017