

## 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 financial statements give true and fair view in all material aspects of the financial position of the AS ELKO Grupa as of December 31, 2015 and of its financial operations for the year ended 31 December, 2015. The financial statements are prepared in accordance with applicable laws and regulations of the Republic of Latvia. 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 AS ELKO Grupa and would ensure the possibility for the management to prepare the financial statements in accordance with applicable laws and regulations of the Republic of Latvia.



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Egons Mednis

Chairman of the Board,

Riga, April 22, 2016



## **Joint stock company ELKO Grupa**

Unified registration number: 40003129564

Annual report  
for the year ended 31 December 2015  
(23<sup>rd</sup> financial year)

**PREPARED IN ACCORDANCE WITH  
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

**Riga, 2016**

The annual report was considered and approved by the general shareholders' meeting on \_\_\_\_\_ 2016

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## ***General information***

Name of the company	ELKO Grupa
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	000312956 Riga, 14 May 1993  Re-registered with the Commercial Register on 2 December 2003 under unified registration number 40003129564
Address	Toma iela 4 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 (1,072,608 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 * The par value per share is EUR 1. The Company's share capital was denominated into the euro in 2015.
Names and positions of Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member
Names and positions of Board Members	Egons Mednis – Chairman of the Board with powers to represent the Company individually, President Jānis Casno - Board Member with representation powers jointly with another Board Member, Chief Executive Officer (till 5 January 2015) Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Financial Officer (till 5 January 2015) Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Executive Officer (from 5 January 2015) Egons Bušs - Board Member with representation powers jointly with another Board Member, Chief Information Technology Officer (till 16 February 2016) Aleksandrs Orlovs - Board Member with representation powers jointly with another Board Member, Distribution Director (till 16 February 2016) Aleksandrs Orlovs - Board Member with representation powers jointly with another Board Member, Business Development Director (from 16 February 2016) Māris Būmanis – Board Member with representation powers jointly with another Board Member, Chief Financial Officer (from 5 January 2015) Mārtiņš Ozoliņš - Board Member with representation powers jointly with another Board Member, Distribution Director (from 16 February 2016)

***General information (cont'd)***

Reporting year

1 January - 31 December 2015

Auditors

Ernst & Young Baltic SIA  
Commercial Company's Licence No 17  
Muitas iela 1A  
Riga, LV-1010  
Latvia

Diāna Krišjāne  
Latvian Certified Auditor  
Certificate No 124

## ***Management report***

### **Business activities**

AS ELKO Grupa (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic countries and Eastern and Central Europe. The Company's core business activity is the wholesale distribution of computer desktop components and peripherals, portable computers, monitors, tablets, multimedia and software products, as well as server, network component and networking solutions, using the wholesale network of the ELKO Grupa subsidiaries and cooperation partners. The Company represents a broad range of well-known IT vendors from all over the world, including *Lenovo, Acer, Intel, Seagate, Western Digital, Asus, Microsoft, etc.*

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

### **Financial analysis**

The turnover of AS ELKO Grupa for the year 2015 was EUR 368 million, down by 25% from the year 2014, which is mainly due to the adverse economic market situation in Russia and Ukraine, which led to a rapid decrease in purchasing power on these markets.

The Company earned a profit of EUR 8.7 million for the reporting year. Compared to the year 2014, net profit grew by EUR 4.3 million, which is chiefly owing to dividends of EUR 6.3 million received from subsidiaries in 2015. Operating profitability ratios had a negative tendency.

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

In 2015, the Company entered into significant distribution agreements with the following vendors:

*Dell, Lanner, AEE, Getac, Solidfire, Netis, ScreenMedia, Qlogic, Hikvision, Asustor, Aiino, etc.*

In 2015, the Company raised financing by issuing three-year bonds amounting to EUR 8 million. In 2016, these bonds were listed on Nasdaq Riga Stock Exchange.

In 2015, the Company liquidated its subsidiaries ELKO Latvija SIA and PRUVIA SIA.

The financial performance of AS ELKO Grupa and its subsidiaries for the year 2015 was affected by the economic crisis of Russia and Ukraine. Owing to sound market diversification, the Company was able to rapidly shift its sales focus to European markets. The utilisation of financial instruments to minimise currency fluctuations produced a positive impact on the Company's financial result.

### **Future prospects**

The performance of AS ELKO Grupa is and will be influenced by the macroeconomic, political and overall competitive situation and the development of markets where the Company is operating. The key factors driving the Company's growth is an increase in demand in the regions where the Company is operating and the Company's ability to adapt effectively to rapid changes in the demand of IT market players (vendors) and the market for new products. Other drivers contributing to the Company's successful development include the inflow of the EU Structural Funds and the enhancement of local productivity of companies incorporated in the Baltic countries and Eastern Europe, as well as government reforms in the CIS region.

In 2016, the Company's sales are expected to remain at the level of 2015.

In view of the existing credit risk and IT industry risk, the Company's management has still defined working capital management as a key priority. The Company reviews its credit policy and customer payment terms on a regular basis, specifically focusing on inventory turnover.

Considering the Company's sound financial position and its leading position on the IT distribution market, the Company's management believes that there are strong grounds for subsequent successful operations of the Company.

### **AS ELKO Grupa structure**

The AS ELKO Grupa Group comprises the following subsidiaries: ELKO Kaunas UAB, ELKO Eesti AS, ELKOTech Romania SRL, WESTech spol. s r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Kazakhstan LLP, ELKO Ukraina TOB. The subsidiary Elko Marketing Ltd. owns 100% shares in Alma Ltd. AS ELKO Grupa has majority shareholding in all of the subsidiaries.

**Management report (cont'd)**

**Financial risk management**

*Multi-currency risk*

AS ELKO Grupa operates internationally and is therefore exposed to foreign currency risk arising primarily with respect to the US dollar, Russian rouble and Ukrainian hryvnia. Foreign currency risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments.

Purchases of goods from vendors are predominantly made in the US dollar, and sales by the Company to its subsidiaries are made in the US dollar. Sales to Baltic customers are carried out in the euro.

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, i.e., the euro.

Revenue of the Company is mainly derived in the US dollar. Accordingly, the Company raises financing also in the US dollar and acquires adequate financing instruments to minimise foreign currency risk.

*Interest rate risk*

AS ELKO Grupa uses a current borrowing to finance part of its current assets. Some borrowings are at floating rates, thereby exposing the Company to interest rate risk.

*Credit risk*

AS ELKO Grupa manages credit risk by means of respective procedures and control mechanisms.

*Inventories*

AS ELKO Grupa determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and/or allowances to be established for obsolete items. The Company makes centralised plans for the purchase and sale of products, and the procedures adopted for the ordering of goods help decrease inventory days at warehouses. The weekly inventory analysis decreases the need for allowances for obsolete items.

The risk related to product flow management is partially reduced through price protection arrangements under cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of a decline of market prices for goods which are still kept at the Company's warehouse or have been already ordered.

*Liquidity risk*

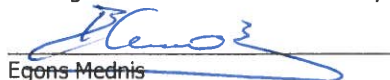
The liquidity risk management policy adopted by the Company provides for the maintenance of sufficient cash and an adequate amount of committed credit facilities with credit institutions. The management of AS ELKO Grupa intends to increase liquidity reserves on the basis of expected cash flows, by managing working capital in a more effective manner.

**Events after balance sheet date**

Except as disclosed in the financial statements, as of the last day of the reporting year there have been no events which could produce a material impact on the Company's financial position as at 31 December 2015.

**Profit distribution suggested by the Board**

The Board has suggested that the profit earned by the Company for the year 2015 should be transferred to retained earnings to maintain financial stability of the Company.

  
Egons Mednis

Chairman of the Board,  
President

Riga, \_\_\_\_\_ 2016

The annual report was approved by the general shareholders' meeting on 22 April 2016.


Chairman of the general shareholders' meeting

  
Andris Putāns

***Income statement***

	Notes	2015 EUR	2014 EUR
Net turnover	1	368,006,295	493,541,568
Cost of sales	2	<u>(368,729,051)</u>	<u>(493,690,946)</u>
<b>Gross loss</b>		<b>(722,756)</b>	<b>(149,378)</b>
Selling and distribution costs	3	(1,722,905)	(2,011,023)
Administrative expenses	4	(8,562,024)	(8,093,483)
Other operating income	5	13,764,257	13,622,704
Other operating expenses	6	(364,500)	(262,216)
Income from investments in subsidiaries	7	6,333,719	1,173,676
Other interest receivable and similar income	8, 20	4,567,216	4,925,107
Loss on non-current financial assets	9	(3,019)	-
Interest payable and similar expenses	10, 20	<u>(4,134,183)</u>	<u>(4,143,262)</u>
<b>Profit before tax</b>		<b>9,155,805</b>	<b>5,062,125</b>
Corporate income tax	11	(459,120)	(614,843)
Deferred tax	11, 27	<u>-</u>	<u>-</u>
<b>Net profit for the year</b>		<b><u>8,696,685</u></b>	<b><u>4,447,282</u></b>

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.



Egons Mednis

Chairman of the Board,  
President

\_\_\_\_\_ 2016



**Balance sheet**

(1)


	Notes	31/12/2015 EUR	31/12/2014 EUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i><b>Intangible assets:</b></i>			
Concessions, patents, licences and similar rights		23,646	26,606
Goodwill		300,000	-
<i><b>Total intangible assets:</b></i>	12	323,646	26,606
<i><b>Property, plant and equipment:</b></i>			
Leasehold improvements		4,845	6,771
Equipment and machinery		123,275	118,776
Communications and IT equipment		297,017	152,117
Other fixtures and fittings, tools and equipment		18,859	31,593
Prepayments for property, plant and equipment		-	19,726
<i><b>Total property, plant and equipment:</b></i>	13	443,996	328,983
<i><b>Non-current financial assets:</b></i>			
Investments in related companies	14	3,834,000	2,929,562
Non-current loans to related companies	33	3,426,000	-
<i><b>Total non-current financial assets:</b></i>		7,260,000	2,929,562
<b>Total non-current assets:</b>		<b>8,027,642</b>	<b>3,285,151</b>
<b>Current assets</b>			
<i><b>Inventories:</b></i>			
Finished goods and goods for resale	15	23,638,030	33,368,541
Prepayments for goods		171,603	260,498
<i><b>Total inventories:</b></i>		23,809,633	33,629,039
<i><b>Receivables:</b></i>			
Trade receivables	16	11,116,114	8,037,433
Receivables from related companies	33	5,182,037	66,580,671
Other receivables	17	5,149,054	1,553,492
Prepaid expenses	18	453,406	193,660
Accrued income		63,665	7,254
<i><b>Total receivables:</b></i>		21,964,276	76,372,510
<i><b>Current financial assets:</b></i>			
Current loans to related companies	33	108,706,557	62,529,668
Short-term deposits	19	-	391,236
Derivative financial instruments	20	2,448,709	304,945
<i><b>Total current financial assets:</b></i>		111,155,266	63,225,849
<i><b>Cash and short-term deposits:</b></i>	21	1,852,494	5,698,298
<b>Total current assets:</b>		<b>158,781,669</b>	<b>178,925,696</b>
<b>TOTAL ASSETS</b>		<b>166,809,311</b>	<b>182,210,847</b>

**Balance sheet**

(2)

	Notes	31/12/2015 EUR	31/12/2014 EUR
<b>EQUITY AND LIABILITIES</b>			
<b>Equity:</b>			
Share capital	22	9,784,790	9,784,791
Share premium		4,973,947	4,973,947
Retained earnings			
a) brought forward		29,924,675	25,477,392
b) for the period		8,696,685	4,447,282
<b>Total equity:</b>		<b>53,380,097</b>	<b>44,683,412</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Debt securities	23	8,000,000	-
Other borrowings	24	44,677	58,170
<b>Total non-current liabilities:</b>		<b>8,044,677</b>	<b>58,170</b>
<b>Current liabilities:</b>			
Loans from credit institutions	25	60,322,020	54,729,279
Other borrowings	24	48,244	48,004
Loans from related companies	33	260,658	260,658
Prepayments received from customers		328,501	627,085
Trade payables		37,616,609	77,251,222
Payables to related companies	33	5,553,987	1,540,874
Taxes payable	28	9,722	580,748
Other liabilities	26	240,331	232,997
Accrued liabilities	29	1,004,465	1,116,997
Undrawn dividends of previous years		-	398,932
Derivative financial instruments	20	-	682,469
<b>Total current liabilities:</b>		<b>105,384,537</b>	<b>137,469,265</b>
<b>Total liabilities:</b>		<b>113,429,214</b>	<b>137,527,435</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>166,809,311</b>	<b>182,210,847</b>

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

  
Egons Mednis

Chairman of the Board,  
President

\_\_\_\_\_ 2016

## *Statement of changes in equity*

	Share capital	Share premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
<b>Balance at 1 January 2014</b>	<b>9,784,791</b>	<b>4,973,947</b>	<b>29,141,285</b>	<b>43,900,023</b>
Dividends paid	-	-	(3,663,893)	(3,663,893)
Profit for the reporting year	-	-	4,447,282	4,447,282
<b>Balance at 31 December 2014</b>	<b>9,784,791</b>	<b>4,973,947</b>	<b>29,924,674</b>	<b>44,683,412</b>
<b>Balance at 1 January 2015</b>	<b>9,784,791</b>	<b>4,973,947</b>	<b>29,924,674</b>	<b>44,683,412</b>
Dividends paid	-	-	-	-
Profit for the reporting year	-	-	8,696,685	8,696,685
Share capital denomination*	(1)	-	1	-
<b>Balance at 31 December 2015</b>	<b>9,784,790</b>	<b>4,973,947</b>	<b>38,621,360</b>	<b>53,380,097</b>

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

\*In 2015, the Company's share capital was denominated into the euro, and the resulting additional 2,908,000 shares should be distributed among the existing shareholders in proportion to their equity interest in the Company. These changes in the share capital were approved by the general shareholders' meeting on 22 April 2015 and registered with the Republic of Latvia Enterprise Register on 28 April 2015.

**Cash flow statement**

	Notes	2015 EUR	2014 EUR
<b>Cash flows to/ from operating activities</b>			
<b>Profit before tax</b>		<b>9,155,805</b>	<b>5,062,125</b>
<b>Adjustments for:</b>			
Amortisation and depreciation	12, 13	252,133	271,055
Changes in provisions and allowances		265,218	(40,352)
Loss from fluctuations of currency exchange rates		4,877,500	388,968
Income from dividends	7	(6,333,719)	(1,173,676)
Penalties received		22,691	19,438
Interest income		(4,437,754)	(3,362,504)
Interest expense	10	4,134,183	3,460,793
Gain/ loss on financial instruments (net)		(2,826,233)	377,524
(Gain)/ loss on disposal of property, plant and equipment		421	(4,244)
		<b>5,110,245</b>	<b>4,999,127</b>
<b>Changes in working capital</b>			
Decrease/ (increase) in trade receivables		47,767,903	(12,555,095)
Decrease/ (increase) in inventories		9,819,406	(1,274,250)
Increase/ (decrease) in trade and other payables		(37,120,245)	20,779,368
<b>Gross operating cash flows</b>		<b>25,577,309</b>	<b>11,949,150</b>
Interest received		248,070	90,406
Interest paid		(22,691)	(19,438)
Corporate income tax paid		(611,372)	(403,130)
<b>Net cash flows to/ from operating activities</b>		<b>25,191,316</b>	<b>11,616,988</b>
<b>Cash flows to/ from investing activities</b>			
Acquisition of shares in related companies		(904,438)	(43,540)
Purchase of property, plant and equipment and intangible assets		(678,085)	(180,222)
Proceeds from sale of property, plant and equipment		13,478	6,324
Loans (issued)/ loans repaid		(41,227,622)	11,169,856
Deposits made		449,640	(1,001)
Interest received		4,241,678	3,313,809
Dividends received		6,333,719	6,595,011
<b>Net cash flows to/ from investing activities</b>		<b>(31,771,630)</b>	<b>20,860,237</b>
<b>Cash flows to/ from financing activities</b>			
Proceeds from borrowings		22,326,351	10,281,501
Repayment of borrowings		(22,994,921)	(32,935,020)
Issued debt securities (bonds)		8,000,000	-
Repayment of borrowings (finance leases)		(66,253)	(46,630)
Interest paid (bonds)		(144,371)	-
Interest paid		(3,987,364)	(3,450,305)
Dividends paid		(398,932)	(3,264,962)
<b>Net cash flows to/ from financing activities</b>		<b>2,734,510</b>	<b>(29,415,416)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>(3,845,804)</b>	<b>3,061,809</b>
Cash and cash equivalents at the beginning of the year		5,698,298	2,636,489
<b>Cash and cash equivalents at the end of the year</b>		<b>1,852,494</b>	<b>5,698,298</b>

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

## **Notes**

### **Accounting policies**

#### **Corporate information**

The joint stock company ELKO Grupa, registered office: Riga, Toma iela 4, unified registration number 40003129564, was established on 14 May 1993. The core business activity of the Company comprises the wholesale and distribution of IT products and the management of subsidiaries.

The financial statements of the Company for the year ended 31 December 2015 were approved by a resolution of the Company's Board on \_\_\_\_\_ 2016.

The Company's shareholders have the power to amend the financial statements after issue.

#### **Basis of preparation**

The financial statements have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is the euro (EUR), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2015 through 31 December 2015.

These are stand-alone financial statements of the Company. Consolidated financial statements are prepared separately.

The income statement has been prepared according to the function of expense method.

The cash flow statement has been prepared under the indirect method.

#### **Changes in accounting policies**

There have been no significant changes in the Company's accounting policies.

#### **Revenue and net turnover**

Net turnover is the total value of goods sold and services rendered during the year, less any discounts granted and value added tax. Revenue from the sale of goods is recognised when the buyer has accepted the goods in accordance with the delivery terms. Revenue from the rendering of services is recognised in the period when the services are rendered. Revenue from dividends is recognised when the shareholders' right to receive the payment is established.

#### **Foreign currency translation into the euro**

On 1 January 2014, Latvia joined the Eurozone and replaced the Latvian lat with the euro.

The currency exchange rate used for accounting purposes is the euro foreign exchange reference rate published by the European Central Bank; if a specific foreign currency has no such euro foreign exchange reference rate published by the European Central Bank, the Company applies the relevant market euro exchange rates published in periodicals or on websites of financial data providers recognised by the global financial market.

Transactions in foreign currencies are translated into the euro at the exchange rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the exchange rate published by the European Central Bank at the last day of the reporting year. Currency exchange gains or losses arising on settlements of transactions in foreign currencies and the translation of monetary assets and liabilities denominated in foreign currencies are reported in the income statement for the respective period.

	<b>31/12/2015</b>	<b>31/12/2014</b>
	<b>EUR</b>	<b>EUR</b>
EUR 1	1.00000	1.00000
USD 1	1.08870	1.21410
LTL 1	3.45280	3.45280
CHF 1	1.08350	1.20240
RUB 1	80,67360	72.3370
RON 1	4.52400	4.48280
KZT 1000	370.07530	220.84000

**Notes (cont'd)**

**Accounting policies (cont'd)**

**Intangible assets and property, plant and equipment**

Intangible assets and property, plant and equipment are stated at cost less accumulated amortisation/ depreciation impairment. The cost includes expenditure that is directly attributable to the acquisition of assets. The cost of software licences includes costs incurred to acquire and bring to use the specific software.

Amortisation/ depreciation is calculated on a straight-line basis over the estimated useful life of an asset to write down its cost to the estimated residual value at the end of the useful life, applying the following amortisation/ depreciation rates fixed by the management:

	% per annum
Licences	20
Vehicles	25
Communication devices	50
Computer and data storage devices	50
Other plant and equipment	25

Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Subsequent costs are added to the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be measured reliably. These costs are written off over the remaining useful life of the relevant asset.

Current repair and maintenance costs are charged directly to the income statement in the period when incurred.

Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item and is included in the income statement in the year the item is derecognised.

**Investments in subsidiaries**

Investments in subsidiaries are stated at cost less impairment losses. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

When there is objective evidence that investments in subsidiaries are impaired, the impairment loss is measured as the difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of an investment's fair value less costs to sell and its value in use. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the impairment since the last impairment loss was recognised.

**Other financial assets**

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

**Notes** (cont'd)

**Accounting policies** (cont'd)

**Other financial assets** (cont'd)

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchasing the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit and loss*

Financial assets classified as held-for-trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held-for-trading unless they are designed as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Other non-current investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any differences between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

**Inventories**

Inventories are recognised when the supplier has issued an invoice and relevant liabilities towards the supplier have been recognised. Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. When the net realisable value of inventories is lower than their cost, impairment allowances are established to write down inventories to their net realisable value.

**Receivables**

Receivables are stated in the balance sheet at amortised cost less impairment allowances. An allowance for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying value and the recoverable amount of a receivable.

An estimate for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible. Allowances for receivables that are 90-180 days overdue are established to the extent of 50% of the debt. Allowances for receivables that are more than 180 days overdue are made to the extent of 100% of the debt.

Allowances for doubtful receivables whose carrying amount exceeds USD 100,000 are estimated separately, analysing the recoverability of each individual balance.

**Finance leases – the Company as a lessee**

Leases that transfer to the Company substantially all the risks and benefits incidental to ownership of an asset are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of fair value of the leased property and the present value of the minimum lease payments. Lease interest payments are taken to the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

**Operating leases – the Company as a lessee**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments and prepayments (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

**Notes** (cont'd)

**Accounting policies** (cont'd)

**Borrowings**

Borrowings are initially recognised at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost determined using the effective interest rate of the borrowing. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement on a systematic basis.

**Taxes**

Current corporate income tax expense is recognised in the financial statements based on the management's calculations made in accordance with the Latvian tax legislation.

Deferred corporate income tax arising from temporary differences between the tax base of assets or liabilities and their carrying amount in these financial statements is calculated using the liability method. Deferred tax is calculated on the basis of currently enacted tax rates that are expected to apply to the period when the deferred tax asset is realised or the deferred tax liability is settled. The principal temporary timing differences arise from differing rates of amortisation and depreciation of the Company's non-current assets and accrued liabilities. A deferred corporate income tax asset is recognised to the extent that it is highly probable that taxable profit will be available against which the deductible temporary difference can be utilised.

**Vacation pay reserve**

The vacation pay reserve is estimated by multiplying the total number of vacation days earned but not taken as at the year end by the average remuneration expense for the last six months.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand.

**Related parties**

Related parties are defined as shareholders of the Company, Board and Council members, their close members of the families, and entities over which these persons exercise significant influence or control.

**Derivative financial instruments and risk hedging**

The Company uses derivative financial instruments, such as currency forwards and swaps, to hedge risks related to fluctuations of currency exchange rates. Derivative financial instruments are initially recognised at cost on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, what is the highly probable forecasted position of income or expenses.

The fair value of derivative financial instruments is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. These derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of financial instruments are taken to the income statement as finance income or costs.

**Subsequent events**

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.



Notes (cont'd)

**1. Net turnover**

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>EUR</b>
Wholesale of computer components	433,488,815	566,571,940
Other sales income	212,162	328,168
Discounts granted	(65,694,682)	(73,358,540)
	<u>368,006,295</u>	<u>493,541,568</u>

**2. Cost of sales**

Acquisition cost of goods sold	426,002,042	563,347,623
Delivery of purchased goods	843,232	921,570
Taxes paid on the acquisition of goods	196,959	291,020
Discounts received	(58,313,182)	(70,869,267)
	<u>368,729,051</u>	<u>493,690,946</u>

**3. Selling and distribution costs**

Delivery of sold goods	539,308	638,760
Warehouse expenses	341,393	507,035
Distribution of goods	640,632	555,485
Advertising	169,189	167,434
Loss on warranty replacement	11,514	120,009
Provisions for RMA liabilities	12,898	12,114
Other selling and distribution costs	7,971	10,186
	<u>1,722,905</u>	<u>2,011,023</u>

**4. Administrative expenses**

Wages and salaries	4,582,238	4,308,339
Office maintenance	1,145,396	1,172,840
Statutory social insurance contributions	1,060,567	989,422
Professional fees*	277,752	264,452
Depreciation and amortisation	252,133	271,009
Recruitment and training expenses	59,890	83,289
Bank charges	217,752	218,262
Transport expenses	107,860	117,375
Business trips	150,904	171,767
Communication expenses	148,497	150,578
Computer maintenance expenses	92,925	93,178
Write-offs of doubtful and bad receivables	87,306	24,633
Receivables insurance	178,099	102,301
Other administrative expenses	107,533	110,364
Other staff costs	93,172	15,674
	<u>8,562,024</u>	<u>8,093,483</u>

\* Including fees paid for services and annual audit to the audit firm: EUR 83,900 in 2015 (2014: EUR 81,002).

Notes (cont'd)

**5. Other operating income**

	<b>2015 EUR</b>	<b>2014 EUR</b>
Income from services provided	2,789,394	2,614,384
Gain on disposal of property, plant and equipment	13,189	4,245
Other income	13,786	4,746
Currency exchange gain	10,947,888	10,999,329
	<u>13,764,257</u>	<u>13,622,704</u>

**6. Other operating expenses**

Advertising contracts with subsidiaries	221,745	174,536
Donations	4,700	1,000
Penalties	22,691	19,438
Other expenses	115,364	67,242
	<u>364,500</u>	<u>262,216</u>

**7. Income from investments in subsidiaries**

Dividends from the subsidiary ELKO Mobile Ltd.	3,304,186	1,004,193
Dividends from the subsidiary WESTech Spol s.r.o.	209,100	158,100
Dividends from the subsidiary ELKO Latvija SIA	3,638	11,383
Dividends from the subsidiary ELKO Marketing Ltd.	2,816,795	-
	<u>6,333,719</u>	<u>1,173,676</u>

**8. Other interest receivable and similar income**

Interest income from current intra-group loans	4,187,236	3,261,610
Currency exchange gain, net	91,383	1,257,658
Late payment interest	248,070	89,478
Contractual penalties received	-	928
Interest accrued on bank account balances	2,447	10,488
Gain on changes in the fair value of current financial instruments, net (see also Note 20)	38,080	304,945
	<u>4,567,216</u>	<u>4,925,107</u>

**9. Loss on non-current financial assets**

Impairment of investments in subsidiaries	3,019	-
	<u>3,019</u>	<u>-</u>

**Notes (cont'd)**

**10. Interest payable and similar expenses**

Interest on loans from credit institutions	3,909,404	3,444,105
Interest paid (related companies)	78,006	13,033
Interest paid (finance leases)	2,402	3,655
Loss on changes in the fair value of current financial instruments, net (see also Note 20)	-	682,469
Interest paid (debt securities)	144,371	-
	<u>4,134,183</u>	<u>4,143,262</u>

**11. Current and deferred corporate income tax**

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>EUR</b>
Deferred tax (see also Note 27)	-	-
Current corporate income tax charge	<u>459,120</u>	<u>614,843</u>
	<u>459,120</u>	<u>614,843</u>

Corporate income tax is different from the theoretical tax that would result from applying the statutory income tax rate of 15% to the Company's profit before tax:

Profit/ (loss) before tax	<u>9,155,805</u>	<u>5,062,125</u>
Tax at the applicable tax rate of 15%	1,373,371	759,319
Non-deductible items	39,603	31,798
Non-taxable income	(952,143)	(183,811)
Tax rebate on donations	(3,995)	(850)
Deferred corporate income tax asset recognised in the reporting year which had not been recognised in the previous year	<u>2,284</u>	<u>8,387</u>
Tax expense	<u>459,120</u>	<u>614,843</u>

The tax rate used in the calculation of deferred tax is 15%.

**Notes (cont'd)**

**12. Intangible assets**

	<b>Concessions, patents, licences and similar rights</b>	<b>Goodwill</b>	<b>Total</b>
Acquisition value			
As at 01/01/2014	298,198	-	298,198
Additions	11,672	-	11,672
Disposals	(14,670)	-	(14,670)
As at 31/12/2014	309,870	-	309,870
Amortisation			
As at 01/01/2014	275,073	-	275,073
Charge for the year 2014	8,191	-	8,191
Disposals	-	-	-
As at 31/12/2014	283,264	-	283,264
Net carrying amount as at 31/12/2014	26,606	-	26,606
Acquisition value			
As at 01/01/2015	309,870	-	309,870
Additions	5,535	300,000	305,535
Disposals	-	-	-
As at 31/12/2015	315,405	300,000	615,405
Amortisation			
As at 01/01/2015	283,264	-	283,264
Charge for the year 2015	8,495	-	8,495
Disposals	-	-	-
As at 31/12/2015	291,759	-	291,759
Net carrying amount as at 31/12/2015	23,646	300,000	323,646
Net carrying amount as at 31/12/2014	26,606	-	26,606

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. According to the conditions of the agreement, AS ELKO Grupa paid EUR 250,000 as at 31 December 2015 (see also Note 29).

Notes (cont'd)

**13. Property, plant and equipment**

	Leasehold improve- ments	Equipment and machinery	Other fixtures and fittings, tools and equipment	Communi- cations and IT equipment	Pre- payments	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Acquisition value						
As at 01/01/2014	13,722	297,855	240,169	1,025,075	-	1,576,821
Additions	-	10,298	23,551	114,974	19,726	168,549
Sold	(4,091)	(11,611)	(141)	(791)	-	(16,634)
Disposed of	-	-	(6,482)	(12,403)	-	(18,885)
Written off	-	-	(8,362)	(16,976)	-	(25,338)
As at 31/12/2014	9,631	296,542	248,735	1,109,879	19,726	1,684,513
Depreciation						
As at 01/01/2014	2,774	132,448	215,992	800,230	-	1,151,444
Charge for the year 2014	2,336	56,929	16,135	187,418	-	262,818
Sold	(2,250)	(11,611)	(141)	(708)	-	(14,710)
Disposed of	-	-	(6,482)	(12,213)	-	(18,695)
Written off	-	-	(8,362)	(16,965)	-	(25,327)
As at 31/12/2014	2,860	177,766	217,142	957,762	-	1,355,530
Net carrying amount as at 31/12/2014	6,771	118,776	31,593	152,117	19,726	328,983
Acquisition value						
As at 01/01/2015	9,631	296,542	248,735	1,109,879	19,726	1,684,513
Additions	-	76,216	1,611	294,723	-	372,550
Sold	-	(3,702)	-	(1,557)	-	(5,259)
Reclassified	-	-	-	19,726	(19,726)	-
Disposed of	-	-	(3,171)	(13,813)	-	(16,984)
Written off	-	(25,309)	(49)	(300)	-	(25,658)
As at 31/12/2015	9,631	343,747	247,126	1,408,658	-	2,009,162
Depreciation						
As at 01/01/2015	2,860	177,766	217,142	957,762	-	1,355,530
Charge for the year 2015	1,926	58,395	14,301	169,016	-	243,638
Sold	-	(925)	-	(1,136)	-	(2,061)
Disposed of	-	-	(3,171)	(13,813)	-	(16,984)
Written off	-	(14,764)	(5)	(188)	-	(14,957)
As at 31/12/2015	4,786	220,472	228,267	1,111,641	-	1,565,166
Net carrying amount as at 31/12/2015	4,845	123,275	18,859	297,017	-	443,996
Net carrying amount as at 31/12/2014	6,771	118,776	31,593	152,117	19,726	328,983

The net carrying amount of assets held under finance lease terms as at 31 December 2015 was as follows: vehicles of EUR 85,558 (2014: vehicles of EUR 95,694). Title to assets held under finance lease terms will be transferred to the Company only after all the lease commitments are settled (see also Note 24).

**Notes** (cont'd)

**14. Investments in related companies**

**Information about investments in subsidiaries**

Company	Carrying amount of equity interest in subsidiaries		Equity interest in subsidiaries	
	31/12/2015 EUR	31/12/2014 EUR	31/12/2015 %	31/12/2014 %
ELKO Trading Switzerland AG	60,757	60,757	100	100
Liquidated ELKO Latvija SIA*	-	2,846	-	100
ELKO Marketing Ltd	2,436	2,436	100	100
ELKO Mobile Ltd	799,682	799,682	51	51
ELKO Eesti AS	100,164	100,164	100	100
ELKO Kaunas UAB	161,241	161,241	100	100
ELKO Kazakhstan LLP	49,231	49,231	100	100
ELKOTEX d.o.o.	80,933	80,933	51	51
ELKOTech Romania SRL**	2,570,171	1,659,887	100	100
WESTech Spol s.r.o.	9,361	9,361	51	51
ELKO Ukraina TOB	24	24	100	100
Liquidated PRUVIA SIA***	-	3,000	-	100
	<u>3,834,000</u>	<u>2,929,562</u>		

\* In 2014, AS ELKO Grupa decided to dissolve its subsidiary ELKO Latvija SIA. ELKO Latvija SIA was struck off the Republic of Latvia Enterprise Register on 8 April 2015.

\*\* On 27 April 2015, AS ELKO Grupa decided to increase the share capital of its subsidiary ELKOTech Romania SRL to RON 10,700,000 (2014: RON 6,680,000). The registered and paid-up share capital of ELKOTech Romania SRL is RON 10,700,000.

\*\*\* In 2015, AS ELKO Grupa decided to dissolve its subsidiary PRUVIA SIA. PRUVIA SIA was struck off the Republic of Latvia Enterprise Register on 21 December 2015.

**Information about subsidiaries**

Company	Address	Equity		Profit/ (loss) for the year	
		31/12/2015 EUR	31/12/2014 EUR	2015 EUR	2014 EUR
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	9,701,940	3,645,743	2,963,425	1,512,642
ELKO Trading Switzerland AG	Switzerland, 6304 Zug, Baarerstrasse 43	1,900,837	(1,816,915)	17,317,879	(10,011,300)
ELKOTEX d.o.o.	Slovenia, Ljubljana, Stegne 027	1,568,645	1,481,806	86,839	16,448
ELKOTech Romania SRL	Romania, Bucharest, Copilului 6-12	2,218,623	1,633,894	(294,048)	(419,579)
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	13,793,309	14,834,836	59,307	47,847
ELKO Kaunas UAB	Lithuania, Kaunas, Algirdo g. 32A	396,258	351,784	44,170	29,992
Liquidated ELKO Latvija SIA	Latvia, Riga, Toma 4	-	4,032	-	195
ELKO Eesti AS	Estonia, Tallinn, Tammsaare tee 47	27,858	27,858	-	-
Elko Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	14,033,428	2,935,012	7,132,814	(631,625)
ELKO Kazakhstan LLP	Dzhambula 118, 1, Almaty, Kazakhstan 050026	(184,448)	(137,962)	(153,531)	(190,930)
ELKO Ukraina TOB	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	(3,334,192)	50,437	(3,647,967)	37,232
Liquidated PRUVIA SIA	Latvia, Riga, Toma 4	-	(3,228)	3,228	(6,228)

**Notes (cont'd)**

**Information about subsidiaries (cont'd)**

Equities of subsidiaries are translated into the euro at the exchange rate published by the European Central Bank at the last day of the reporting year. Financial results of subsidiaries are reported in the euro, applying the average exchange rate set by the European Central Bank for the reporting year. Financial results and equities of subsidiaries are presented to the extent of the share of AS ELKO Grupa.

**15. Finished goods and goods for resale**

	<b>31/12/2015</b>	<b>31/12/2014</b>
	<b>EUR</b>	<b>EUR</b>
Goods at warehouses	13,252,548	13,355,724
Goods in transit	10,385,482	20,012,817
	<u>23,638,030</u>	<u>33,368,541</u>

All inventories of AS ELKO Grupa, except for goods of EUR 13,252,548 to which legal title have not yet passed from vendors to the Company, and goods in transit have been pledged for the benefit of lenders.

**16. Trade receivables**

Trade receivables, gross	11,253,558	8,140,707
Allowances for bad and doubtful trade receivables	(137,444)	(103,274)
	<u>11,116,114</u>	<u>8,037,433</u>

**17. Other receivables**

VAT overpaid in the Netherlands (see also Note 28)	2,635,587	1,056,786
Deposits made to suppliers	2,112,611	247,097
Overpayment of corporate income tax (see also Note 28)	159,165	6,913
Prepayments	19,009	10,655
Other receivables	222,682	232,041
	<u>5,149,054</u>	<u>1,553,492</u>

**18. Prepaid expenses**

Lease of premises	87,750	87,750
Insurance	7,322	5,463
Commission fee for the bond issue*	148,889	-
Other expenses	209,445	100,447
	<u>453,406</u>	<u>193,660</u>

In 2015, the Company issued bonds amounting to EUR 8 million. The bonds mature on 16 October 2018. According to the conditions of the agreement, AS ELKO Grupa paid a commission fee to Baltikums Bank AS, which organised the bond issue. This commission fee is written off on a straight-line basis until the maturity of the bonds (see also Note 23).

Notes (cont'd)

## 19. Short-term deposits

	2015 EUR	2014 EUR
Short-term deposits	-	391,236
	-	391,236

On 26 February 2014, AS ELKO Grupa entered into a deposit agreement with OJSC Promsvyazbank Cyprus Branch for the total amount of USD 475,000, which was security for the guarantee agreement. The deposit expired on 15 April 2015. The interest rate was 1.95% per annum.

## 20. Derivative financial instruments

	2015 EUR		2014 EUR	
	Assets	Liabilities	Assets	Liabilities
Fair value balance at the beginning of the year	-	-	-	-
Charged to the income statement (Notes 8 and 10)	2,448,709	-	304,945	(682,469)
Fair value balance at the end of the year	2,448,709	-	304,945	(682,469)

As at 31 December 2015, the Company had currency forward contracts on the sale of RUB against USD for the amount of RUB 3,288 million (2014: RUB 1,058 million) with an average term of 39 days and the sale of RON against USD for the amount of RON 3.6 million (2014: RON 3.6 million) with the maturity date set on 13 September 2016. As at 31 December 2015, the fair value of these contracts was EUR 2,448,709 (2014: EUR 377,524). The fair value of the currency forward contracts is calculated at market rates.

In 2015, derivatives were used as risk management tools to mitigate the impact of currency fluctuations on selling prices and relevant open currency positions.

Financial liabilities or assets which are not held for trading are disclosed as current or non-current liabilities or assets according to their settlement dates. Derivative financial instruments which are due to be settled in more than twelve months and which are not to be sold for more than twelve months after the balance sheet date are classified as non-current assets or liabilities.

	2015 EUR		2014 EUR	
	Assets	Liabilities	Assets	Liabilities
Non-current derivative financial instruments	-	-	-	-
Current derivative financial instruments	2,448,709	-	304,945	(682,469)
	2,448,709	-	304,945	(682,469)



**Notes (cont'd)**

**21. Cash and short-term deposits**

Cash at bank	1,852,494	5,698,298
	<u>1,852,494</u>	<u>5,698,298</u>

**22. Share capital**

As at 31 December 2015, the Company's registered and paid-in share capital was EUR 9,784,790 (2014: EUR 9,784,791) and consisted of 9,784,790 shares (2014: 6,876,790 shares). The par value per share is EUR 1.00 (2014: EUR 1.42).

In 2015, the Company's share capital was denominated into the euro, and the resulting additional 2,908,000 shares should be distributed among the existing shareholders in proportion to their equity interest in the Company. These changes in the share capital were approved by the general shareholders' meeting on 22 April 2015 and registered with the Republic of Latvia Enterprise Register on 28 April 2015.

**23. Debt securities**

On 16 October 2015, the Company issued bonds (ISIN: LV0000801892) amounting to EUR 8 million. The bonds mature on 16 October 2018. The bonds bear interest at a fixed rate (coupon) of 8% per annum. At the year end, issued debt securities (bonds) are recorded at their pair value.

On 21 September 2015, the Company's shareholders adopted a decision to issue debt securities (bonds). On 12 October 2015, the Company's Board decided to issue bonds and to authorise the Board members to sign all documents related to the Board's decision to issue debt securities.

On 14 December 2015, the Company's Board adopted a decision to approve the Prospectus and launch the bonds for trading on the regulated market.

On 21 March 2016, the bonds of AS ELKO Grupa were admitted to trading on NASDAQ.

Notes (cont'd)

## 24. Other borrowings

### Non-current portion

	31/12/2015	31/12/2014
	EUR	EUR
Portion of finance leases maturing between 2 and 5 years	44,677	58,170
	<u>44,677</u>	<u>58,170</u>

### Current portion

Portion of finance leases maturing within 1 year	48,244	48,004
	<u>48,244</u>	<u>48,004</u>

As disclosed in Note 12, the Company has acquired assets under finance lease terms. The present value of finance lease liabilities may be specified as follows:

Portion of finance leases maturing within 1 year	48,244	48,004
Portion of finance leases maturing between 2 and 5 years	44,677	58,170
	<u>92,921</u>	<u>106,174</u>

Finance lease liabilities – minimum lease payments:

Portion of finance leases maturing within 1 year	49,488	49,242
Portion of finance leases maturing between 1 and 5 years	45,830	59,671
	<u>95,318</u>	<u>108,913</u>
Future finance charges	(2,397)	(2,739)
Present value of finance lease liabilities	<u>92,921</u>	<u>106,174</u>

The effective interest rate applied to finance leases as at 31 December 2015 was 2.58% (2014: 2.58%). In 2015, the Company paid EUR 57,757 for assets held under finance lease terms.

## 25. Loans from credit institutions

	31/12/2015	31/12/2014
	EUR	EUR
Credit line from AS Swedbank *	4,784,601	-
Credit line from AS SEB banka **	21,428,846	22,376,814
Loan from OJSC Promsvyazbank Cyprus Branch***	12,395,629	13,824,184
Credit line from AS Nordea Bank AB****	21,710,311	18,525,188
Credit balance of credit cards	2,633	3,093
	<u>60,322,020</u>	<u>54,729,279</u>

\*On 5 November 2015, AS ELKO Grupa entered into a credit line agreement with AS Swedbank. The maximum limit is USD 7,500,000. The interest rate is set as 3-month LIBOR USD plus a margin of 5.5% per annum. The credit line matures on 5 November 2016.

\*\*On 5 November 2015, the credit line agreement signed between AS ELKO Grupa and AS SEB banka was amended. As a result, the maximum limit has been reduced to USD 25,000,000. The interest rate has remained as 3-month LIBOR USD plus a margin of 3.75% per annum. The credit line matures on 31 July 2016.

\*\*\*On 10 July 2015, the credit line agreement signed between AS ELKO Grupa and OJSC Promsvyazbank Cyprus Branch was amended. As a result, the maximum limit has been defined as RUB 1,000,000,000. The floating interest rate is not less than 12% and not more than 40% per annum. The credit line matures on 23 December 2016.

\*\*\*\*On 5 November 2015, the overdraft agreement signed between AS ELKO Grupa and AS Nordea Bank AB was amended. As a result, the maximum limit has been increased to USD 30,498,963. The interest rate is set as overnight LIBOR USD/EONIA EUR plus a margin of 2.90% per annum. The overdraft matures on 31 July 2016.

**Notes (cont'd)**

**26. Other liabilities**

Bonuses for the reporting year	231,300	229,072
Other	9,031	3,925
	<u>240,331</u>	<u>232,997</u>

**27. Deferred tax**

Deferred income tax assets and liabilities are offset only if the Company has a legally enforceable right to set off the current tax asset against the current tax liability and deferred tax refers to the same tax authority. Deferred tax has been offset as follows:

	<b>31/12/2015</b>	<b>31/12/2014</b>
	<b>EUR</b>	<b>EUR</b>
<b>Deferred income tax asset:</b>		
- deferred tax asset recoverable within one year	61,465	50,937
	<u>61,465</u>	<u>50,937</u>
<b>Deferred income tax liability:</b>		
- valuation allowance for unrecognised deferred tax asset	(32,399)	(34,683)
- deferred tax liability recoverable in more than one year	(21,430)	(14,173)
- deferred tax liability recoverable within one year	(7,636)	(2,081)
	<u>(61,465)</u>	<u>(50,937)</u>
Net deferred tax liability	<u>-</u>	<u>-</u>

Deferred income tax has been calculated on the following temporary differences between the tax base of assets and liabilities and their carrying amount in these financial statements:

<b>Deferred income tax liability:</b>		
Depreciation	29,066	16,254
<b>Deferred income tax asset:</b>		
Vacation pay reserve	(29,440)	(25,973)
Accumulated bad receivables	(20,617)	(15,491)
Provisions for RMA liabilities	(11,408)	(9,473)
Valuation allowance for deferred tax asset*	(32,399)	(34,683)
Deferred tax liability	<u>-</u>	<u>-</u>

\*Following the prudence principle, AS ELKO Grupa has not recognised a deferred tax asset in these financial statements. A deferred corporate income tax asset is recognised to the extent that it is highly probable that taxable profit will be available against which the deductible temporary difference can be utilised.

**Notes (cont'd)**

**28. Taxes payable**

	Corporate income tax	VAT (Latvia)	VAT (Nether- lands)	Social insurance contribu- tions	Personal income tax	Unemploy- ment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 31/12/2014	-	434,686	-	87,389	58,600	73	580,748
(Receivable) as at 31/12/2014	(6,913)	-	(1,056,786)	-	-	-	(1,063,699)
Calculated for 2015	459,237	1,481,965	(4,138,654)	1,584,746	858,276	893	246,463
Refunded from the budget	-	5,071	2,559,853	-	-	-	2,564,924
Transferred to other taxes	-	-	-	-	-	-	-
Paid in 2015	(611,489)	(1,912,000)	-	(1,672,135)	(916,876)	(966)	(5,113,466)
Payable as at 31/12/2015	-	9,722	-	-	-	-	9,722
(Receivable) as at 31/12/2015	(159,165)	-	(2,635,587)	-	-	-	(2,794,752)

\*Overpaid taxes are disclosed as other receivables (see also Note 17).

**29. Accrued liabilities**

	31/12/2015 EUR	31/12/2014 EUR
Vacation pay reserve	196,272	173,153
Marketing	54,499	62,774
RMA provisions	76,051	63,153
Other accrued expenses	432,612	769,179
Interest accrued on loans from related companies	61,771	48,738
Interest accrued on long-term debt securities (see also Note 23)	133,260	-
Accrued expenses for the acquisition of goodwill (see also Note 12)	50,000	-
	<u>1,004,465</u>	<u>1,116,997</u>

**30. Average number of employees**

	2015	2014
Average number of employees during the reporting year:	<u>203</u>	<u>200</u>

**31. Management remuneration**

	2015 EUR	2014 EUR
<b>Board Members</b>		
- wages and salaries	215,228	275,734
- statutory social insurance contributions	44,305	48,989
	<u>259,533</u>	<u>324,723</u>

**Notes (cont'd)**

**31. Management remuneration (cont'd)**

The Board and Council Members do not receive remuneration for their functions in the Board and Council of the Company. Remuneration disclosed in Note 32 represents salaries paid for the execution of official duties under employment contracts.

**32. Pledges and issued guarantees**

On 12 November 2015, AS ELKO Grupa issued a guarantee to Schneider Electric IT Logistics Europe Ltd for the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 250,000. The guarantee will be effective until 27 November 2017.

On 29 April 2015, AS ELKO Grupa issued a guarantee to Banca Transilvania S.A. for the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 6,700,000 (2014: EUR 4,500,000). The guarantee will be effective until the liabilities are fully settled.

On 9 July 2015, AS ELKO Grupa issued a guarantee to Dell Emerging Markets (EMEA) Ltd. for the liabilities of the subsidiary ELKOTech Romania SRL amounting to USD 1,000,000. The guarantee will be effective until 25 August 2016.

On 3 June 2015, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary ELKOTech Romania SRL amounting to USD 5,000,000. The guarantee will be effective until 5 June 2016.

On 24 July 2015, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary Elko Mobile Ltd amounting to USD 100,000,000 (2014: USD 50,000,000). The guarantee will be effective until 21 July 2016.

On 30 September 2015, AS ELKO Grupa issued a guarantee to IBM Belgium Financial Services Company S.P.R.L. for the liabilities of the subsidiary Elko Mobile Ltd amounting to EUR 40,000,000 (2014: EUR 10,000,000). The guarantee will be effective until 18 August 2016.

On 17 July 2015, AS ELKO Grupa signed an agreement with OTP Bank PJSC on the increase of the amount of the guarantee issued on 25 June 2014 to UAH 100,000,000 (2014: UAH 80,000,000). AS ELKO Grupa issued a guarantee to OTP Bank PJSC for the liabilities of the subsidiary Elko Ukraine LLC. The guarantee will be effective until 28 April 2016.

On 9 December 2014, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary ALMA LLC amounting to USD 15,000,000. The guarantee was effective until 9 September 2015.

On 18 January 2016, AS ELKO Grupa renewed a guarantee agreement with Lenovo PC HK Ltd regarding the liabilities of the subsidiary ALMA LLC amounting to USD 15,000,000. The guarantee will be effective until 18 January 2017.

On 24 July 2014, AS ELKO Grupa issued a guarantee to ALFABANK for the liabilities of the subsidiary Elko Kazakhstan amounting to KZT 767,812,500. The guarantee will be effective until the liabilities are fully settled.

On 21 December 2015, AS ELKO Grupa entered into an agreement with AG Deutsche Bank New York branch on the financing of trade payables of AS ELKO Grupa and Elko Mobile Ltd. According to the agreement, AS ELKO Grupa has guaranteed the portion of the total limit used by Elko Mobile Ltd. As at 31 December 2015, the total trade financing limit assigned to both companies by AG Deutsche Bank New York branch was USD 40,000,000. The guarantee will be effective until 17 September 2016.

On 27 November 2015, AS ELKO Grupa entered into an agreement with Swedbank AS on the extension of the guarantee issued on 23 October 2013. Swedbank AS issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary Elko Mobile Ltd towards the beneficiary of the guarantee Lenovo PC HK Ltd amounting to USD 2,000,000 (2014: USD 2,000,000). The guarantee will be effective until 31 December 2016.

On 23 December 2015, AS ELKO Grupa entered into a guarantee agreement with Swedbank AS for the benefit of Microsoft Ireland Operations Limited for the liabilities of the subsidiary ALMA LLC amounting to USD 250,000. The guarantee will be effective until 31 December 2016.

All the assets of AS ELKO Grupa have been pledged for the benefit of lenders.

**Notes (cont'd)**

**33. Related party disclosures**

During the reporting year, AS ELKO Grupa sold computer components and provided services to its subsidiaries for more than EUR 255 million (2014: EUR 379 million). In 2015, payments for these supplies were made by the contractual due dates.

The Company had the following transactions with related parties:

Company	Sales		Purchases	
	2015 EUR	2014 EUR	2015 EUR	2014 EUR
ELKO Trading Switzerland AG	219,776,599	348,424,884	2,601,857	3,100,482
Liquidated ELKO Latvija SIA	3,619	14,919	-	-
ELKO Eesti AS	-	-	277,760	224,346
ELKO Kaunas UAB	-	-	398,173	351,360
Elko Mobile Ltd	4,343,313	1,004,193	-	-
ELKOTEX d.o.o.	6,004,931	5,884,687	99,005	113,287
ELKOTech Romania SRL	15,350,279	15,108,547	262,973	228,501
WESTech Spol s.r.o.	6,872,162	8,912,407	137,656	1,742,504
Liquidated PRUVIA SIA	2,458	463	121,402	3,000
ELKO Kazakhstan LLP	-	748	-	24
ELKO Marketing Ltd	2,816,795	-	-	-
AST Balts SIA	-	-	1,479,000	-
	<u>255,170,156</u>	<u>379,350,848</u>	<u>5,377,826</u>	<u>5,763,504</u>

Receivables and payables arising from transactions with related parties:

Company	Amounts due from subsidiaries		Amounts due to subsidiaries	
	31/12/2015 EUR	31/12/2014 EUR	31/12/2015 EUR	31/12/2014 EUR
ELKO Trading Switzerland AG*	717,735	62,819,574	5,431,787	1,428,528
Liquidated ELKO Latvija SIA	-	-	-	-
ELKO Eesti AS	-	-	43,143	31,650
ELKO Kaunas UAB	-	-	76,324	37,229
ELKOTEX d.o.o.	390,997	612,396	2,256	4,143
ELKOTech Romania SRL**	2,353,776	3,148,238	477	-
ELKO Marketing Ltd	-	-	-	-
Elko Mobile Ltd***	1,045,102	-	-	-
WESTech Spol s.r.o.	674,427	-	-	39,324
Liquidated PRUVIA SIA	-	463	-	-
	<u>5,182,037</u>	<u>66,580,671</u>	<u>5,553,987</u>	<u>1,540,874</u>

\*Including interest payable for current loans: EUR 717,735 in 2015 (2014: EUR 772,177).

\*\*Including interest payable for current loans: EUR 16,224 in 2015 (2014: EUR 16,373).

\*\*\*Including interest payable for current loans: EUR 1,045,102 in 2015 (2014: EUR 0).

**Notes (cont'd)**

**33. Related party disclosures (cont'd)**

**Non-current loans to related companies**

	<b>2015</b>	<b>2014</b>
	<b>EUR</b>	<b>EUR</b>
Loan to SIA AST Balts	3,426,000	-
	<u>3,426,000</u>	<u>-</u>

On 26 November 2015, AS ELKO Grupa signed an agreement amending the loan agreement signed with SIA AST Balts on 25 August 2015. According to the amendments, the maximum loan amount has been increased to EUR 3,426,000. The interest rate is 5% per annum. The loan matures on 31 August 2020.

**Current loans to related companies**

	<b>31/12/2015</b>	<b>31/12/2014</b>
	<b>EUR</b>	<b>EUR</b>
Credit line issued to ELKO Trading Switzerland AG, carrying amount*	57,866,229	61,774,154
Loan issued to ELKOTech Romania SRL, carrying amount**	748,634	755,514
Loan issued to ELKO Mobile Ltd., carrying amount***	50,091,694	-
	<u>108,706,557</u>	<u>62,529,668</u>

\*On 5 November 2015, the Company signed an agreement with the subsidiary ELKO Trading Switzerland Ltd on the decrease of the credit line amount to USD 62,998,963 (2014: USD 75,000,000). The credit line bears interest at 5.5% per annum. The credit line matures on 31 July 2016.

\*\*On 7 September 2015, the Company signed an agreement with the subsidiary ELKOTech Romania SRL on the extension of the loan maturity until 8 September 2016. The loan amounts to RON 3,386,819 and bears interest at 7% per annum.

\*\*\*On 19 May 2015, the Company entered into a loan agreement with the subsidiary ELKO Mobile Ltd. The loan matured on 31 August 2015. On 26 November 2015, the Company signed an agreement with the subsidiary ELKO Mobile Ltd. on the extension of the loan maturity until 30 December 2016. The loan amounts to USD 60,000,000 and bears interest at 5% per annum.

**Current loans received from related parties**

Current loan received from ELKO Kaunas UAB, carrying amount*	260,658	260,658
	<u>260,658</u>	<u>260,658</u>

\*On 20 October 2010, the Company received a perpetual loan of LTL 600,000 from the subsidiary ELKO Kaunas UAB. On 26 February 2013, an additional agreement was signed on the increase of the loan to LTL 900,000. On 1 January 2015, an additional agreement was signed on the denomination of the loan in the euro, i.e., EUR 260,658. The loan bears interest at 5% per annum.

**34. Financial risk management**

**Multi-currency risk**

AS ELKO Grupa operates internationally and is therefore exposed to foreign currency risk arising primarily with respect to the US dollar and the Russian rouble. Foreign currency risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments.

Purchases of goods from vendors are predominantly made in the US dollar and the euro. Sales by the Company to its subsidiaries are chiefly made in the US dollar. Sales to Lithuanian and Estonian customers are carried out in the euro.

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, i.e., the euro.

**Notes (cont'd)**

**34. Financial risk management (cont'd)**

Revenue of the Company is mainly derived in the US dollar. Accordingly, the Company raises financing also in the US dollar to minimise foreign currency risk.

**Derivative financial instruments and risk hedging**

The Company uses derivative financial instruments, such as currency forwards, to hedge risks related to fluctuations of currency exchange rates and their effect on selling prices.

At the inception of the transaction, the Company determines risk management objectives and strategy and assesses the effectiveness of hedging factors. The Company also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

According to amendments to IAS 1, financial liabilities or assets which are not held for trading are disclosed as current or non-current liabilities or assets according to their settlement dates. Derivative financial instruments which are due to be settled in more than twelve months and which are not to be sold for more than twelve months after the balance sheet date are classified as non-current assets or liabilities.

The fair value of derivative financial instruments used as hedging instruments is disclosed in Note 19.

**Interest rate risk**

AS ELKO Grupa uses a current borrowing to finance part of its current assets. All the borrowings are at floating rates, thereby exposing the Company to interest rate risk.

**Credit risk**

AS ELKO Grupa pursues a conservative credit monitoring policy. According to the credit policy, individual credit limits assigned to customers are subject to careful examination, and the utilisation of credits is monitored on a regular basis.

In 2013, AS ELKO Grupa entered into a cooperation agreement with the receivables insurance company Atradius Credit Insurance N.V. The agreement provides for the insurance of certain balances due from Baltic debtors to the extent of 90%.

**Liquidity risk**

The liquidity risk management policy adopted by the Company provides for the maintenance of sufficient cash and an adequate amount of committed credit facilities with credit institutions. The management of AS ELKO Grupa intends to increase liquidity reserves on the basis of expected cash flows, by managing working capital in a more effective manner.

**Legal risk**

For the most part, the Company's sales represent transactions with the subsidiary Elko Trading Switzerland AG, which supplies goods only to the CIS region (Russia and Ukraine). Therefore, this subsidiary is exposed to legal and business risks associated with its operations on the Russian and Ukrainian markets. Hence, the management believes that AS ELKO Grupa is exposed to legal and business risks of the Russian and Ukrainian markets through its subsidiary and the ability of AS ELKO Grupa to continue its operations and its financial position and performance could be substantially affected by changes in the interpretation and application of Russian or Ukrainian laws and regulations.

**35. Events after balance sheet date**

On 21 March 2016, the bonds of AS ELKO Grupa were admitted to trading on NASDAQ.

Except as disclosed in these financial statements, as of the last day of the reporting year there have been no other events which could produce a material impact on the Company's financial position as at 31 December 2015.



## INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Elko Grupa

### Report on the financial statements

We have audited the accompanying financial statements AS Elko Grupa (the "Company"), set out on pages 7 through 31 of the accompanying 2015 Annual Report, which comprise the balance sheet as at 31 December 2015, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' responsibility

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

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

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

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Elko Grupa as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

### Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 5 through 6 of the accompanying 2015 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

SIA Ernst & Young Baltic  
Licence No. 47



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

Rīga, 22 April 2016