AS ELKO GRUPA

BASE PROSPECTUS

EUR 50,000,000
or its equivalent in USD

Programme for the issuance of Notes

The prospectus relating to a series of Notes issued under the Programme consists of this Base Prospectus and the Final Terms

Arranger of the Programme:

Baltikums Bank

www.baltikums.eu

11 October 2016

Neither of this Base Prospectus nor any Final Terms does constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

Information concerning the Base Prospectus

General

In this Base Prospectus, any reference to the **Issuer** means Akciju Sabiedrība "ELKO Grupa" and the **Group** means Akciju Sabiedrība "ELKO Grupa" together with its consolidated subsidiaries. In this Base Prospectus, the **Issuing Agent** and arranger of the Programme refers to Baltikums Bank AS.

In this Base Prospectus, unless otherwise specified, references to **EUR** or **euro** are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant, and as defined in Article 2 of the Council Regulation (EC) No.974/98 of 3 May 1998 on the introduction of the euro, as amended, and references to **USD** or **US dollars** are to the official currency of the United States of America.

Items included in this Base Prospectus, as well as in the audited consolidated annual reports of the Group for the years ended 31 December 2014 and 2015 respectively and the unaudited consolidated interim report of the Group for the six month period ended 30 June 2016 are measured using the currency of the primary economic environment in which the Group's entity operates. The Group's audited consolidated financial statements are presented in US dollars, which is also the Issuer' functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing the date when the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional 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 recognized in other comprehensive income until the net investment is disposed, at which time, they are recognized 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 functional currency using the exchange rates as at the dates of the initial transactions.

On consolidation, the assets and liabilities of foreign operations are translated into US dollars 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 recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized as gain or loss.

This Base Prospectus has been elaborated by the Issuer in accordance with the Financial Instruments Market Law of Latvia and other applicable binding legal acts of the European Union with respect to the information to be incorporated in prospectuses. The Issuer will, if deemed necessary, supplement the Base Prospectus with updated information in accordance with the Financial Instruments Market Law.

This Base Prospectus has been registered with the Latvian Financial and Capital Market Commission and has been notified to the Financial Supervision Authority of Estonia.

This Base Prospectus has been drafted in English and summary of the Base Prospectus has been translated into Latvian and Estonian. In case of any inconsistencies and/or discrepancies between the Base Prospectus in English and the Latvian and Estonian translation, the Base Prospectus wording in English shall prevail.

The Issuing Agent hereby does not give any representation or warranty with respect to the content of this Base Prospectus, and nothing contained in this Base Prospectus is, or shall be deemed to be a warranty or representation made by the Issuing Agent. The Issuing Agent assumes no responsibility for the accuracy or completeness of the information and, accordingly, disclaims to the fullest extent permitted by applicable law, any and all liability which it might otherwise be found to have in respect of this Base Prospectus or any such statement.

The information contained herein is, to the best knowledge of the Issuing Agent, current as of the date of this Base Prospectus.

Notice to Potential Investors and restrictions on distribution

Prior to making an investment decision, Potential Investors must rely on their own analysis on the advantages and risks relating to this investment decision. The delivery or display of this Base Prospectus shall not under any circumstances, create any implication that the information contained in the Base Prospectus is correct as of any time subsequent to the date hereof or that the operations of the Issuer have not since changed.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain countries could be restricted or prohibited by law or any other binding legal provisions. Any person residing outside the Republic of Latvia and the Republic of Estonia may receive this Base Prospectus only within the limits of applicable special provisions or restrictions. The Issuer hereby requires persons into whose possession this Base Prospectus or any Final Terms comes to inform themselves of and obey to all such restrictions. This Base Prospectus and any Final Terms may not be distributed or published in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws. Neither this Base Prospectus nor any Final Terms constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The Issuer and the Issuing Agent or their representatives or advisers do not accept any legal responsibility whatsoever for any such violations, whether or not a Potential Investor is aware of such restrictions.

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Terms and abbreviations used

Annual Interest Rate	Notes annual interest rate accrued and payable according to Final Terms
Base Prospectus	This document, which describes the Programme for issuance of Notes
Business Day	A day which is not a holiday and non-business day in the Republic of Latvia and LCD securities settlement system and TARGET2 system are open
ELKO Group	Akciju sabiedrība "ELKO GRUPA" (registration number 40003129564, legal address: Toma street 4, Riga, LV-1003, Latvia) with its consolidated subsidiaries
EUR	Euro (single currency of the member states of the European Monetary System)
Final Terms	Final terms of the relevant Series of Notes
General Terms and Conditions	General terms on conditions of the Notes
IFRS	International Financial Reporting Standards
Interest Payment Date	The interest payment date specified in the Final Terms
ISIN Code	International Security Identification Number
Issuer	Akciju sabiedrība "ELKO GRUPA" (registration number 40003129564, legal address: Toma street 4, Riga, LV-1003, Latvia)
Issue Date	The issue date of each Series of Notes
Issue Price	The issue price of the Notes
Issuing Agent	Baltikums Bank AS (registration number: 40003551060, legal address: Smilsu iela 6, Riga, LV-1050, Latvia)
LCD	AS "Latvijas Centrālais depozitārijs" (registration number: 40003242879, legal address: Valnu street 1, Riga, LV-1050, Latvia)
Maturity Date	The date specified in the Final Terms on which the Notes shall be repaid in full at their Nominal Value
Minimum Investment Amount	The minimum investment amount for subscription of the Notes, as specified in the Final Terms
Nasdaq Riga	AS "Nasdaq Riga" (registration number: 40003167049, legal address: Valnu street 1, Riga, LV-1050, Latvia)
Nominal Value	The face value of a single Note, as specified in the Final Terms
Notes	Notes to be issued under the Programme
Noteholder	Holders of the Notes
Potential Investor	A private individual or a legal entity that has, expressed interest or is planning to purchase for its own account one or more Notes
Programme	Common terms and conditions for issuance of Notes, which regulate all Series of Notes
RoL	The Republic of Latvia
Series of Notes	Any series of Notes issued under the Programme
Subscription Order	Order from the investors to acquire the Notes
Subscription Period	The subscription period for each Series of Notes, as specified in the Final Terms
USD	US Dollar (the official currency of the United States of America)

1. Summary

Section A. Introduction and warnings

Element and Disclosure requirement		Information
A.1	Warning to investors	• This summary should be read as introduction to the Base Prospectus; • Any decision to invest in the securities should be based on consideration of the Base Prospectus as a whole,; • Where a claim relating to the information contained in the Base Prospectus is brought before a court, the plaintiff Potential Investor might, under the national legislation of the Member States, have to bear the costs of translating the Base Prospectus before the legal proceedings are initiated; and • Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Base Prospectus, or it does not provide, when read together with the other parts of the Base Prospectus, key information in order to aid Potential Investors when considering whether to invest in such securities.

Section B. Issuer and any guarantor

Element and Disclosure requirement		Information
B.1	Legal name and commercial name of the Issuer	The Issuer's legal and commercial name is akciju sabiedrība "ELKO GRUPA".
B.2	The domicile and legal form of the Issuer, the legislation under which the Issuer operates and its country of incorporation	The Issuer is registered in the Republic of Latvia as a Joint Stock Company (*Akciju Sabiedrība*). It operates under the laws of the Republic of Latvia and has headquarters in Riga, Latvia. The main legal acts of the Republic of Latvia which regulate the operation of the Issuer are: • the Commercial Law (*Komerclikums*); • the Civil Law (*Civillikums*); • the Labour Law (*Darba likums*); and • any binding Cabinet Regulations of Latvia (*Ministru Kabineta noteikumi*).
B.4b	A description of any known trends affecting the Issuer and the industries in which it operates	At the date of this Base Prospectus, there are no information on any known trends that are reasonably likely to have a financial effect on the Issuer and the industries in which the Issuer operates.

B.5; B.14	A description of the group and the Issuer's position within the group	The Issuer is the main company within the group. The Issuer is the holding company for following subsidiaries: • ELKO Lietuva UAB (Lithuania) – 100% belongs to the Issuer; • ELKO Eesti OU (Estonia) – 100% belongs to the Issuer; • ELKOTech Romania SRL (Romania) – 100% belongs to the Issuer; • ELKO Trading Switzerland AG (Switzerland) – 100% belongs to the Issuer; • ELKOTEX d.o.o. (Slovenia) – 51% belongs to the Issuer; • WESTech spol. s r.o. (Slovakia) – 51% belongs to the Issuer; • ELKO Kazakhstan LLP (Kazakhstan) – 100% belongs to the Issuer; • ELKO Mobile Limited (Cyprus) – 51% belongs to the Issuer; • ELKO Marketing Limited (Cyprus) – 100% belongs to the Issuer; • ELKO Ukraine Ltd (Ukraine) – 0.1% belongs to the Issuer. WESTech spol. s r.o. (Slovakia) is the holding company for WESTech CZ s.r.o. (Czech Republic) – 100% belongs to the WESTech spol. s r.o. (Slovakia); WESTech solutions s.r.o. (Czech Republic) – 25% belongs to the WESTech spol. s r.o. (Slovakia). ELKO Marketing Limited (Cyprus) is the holding company for following subsidiaries: • Alma Ltd (Russia) – 100% belongs to the ELKO Marketing Limited; • ELKO Ukraine Ltd (Ukraine) – 99.9% belongs to the ELKO Marketing Limited.
B.9	Profit forecast or estimate	Not applicable. The Issuer has not made any profit forecast or profit estimate in this Base Prospectus.
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	None of the audited consolidated annual reports for years 2014 and 2015 includes any qualifications.

B.12	Selected historical key information regarding the Issuer A statement that there has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements or a description of any material adverse change A description of significant changes in the financial or trading position subsequent to the period covered by the historical financial information	Selected historical key information are based on the consolidated audited annual reports for years 2014 and 2015 and consolidated unaudited financial statements for six months 2015 and 2016. Consolidated income statement:

USD, '000	**2014**	**2015**	**1H 2015**	**1H 2016**
Sale of goods	1 292 204	1 264 020	514 388	541 515
Cost of sales	(1 252 589)	(1 205 935)	(489 109)	(516 111)
Gross profit	**39 615**	**58 085**	**25 279**	**25 404**
Selling and distribution costs	(5 008)	(4 427)	(2 214)	(2 424)
Administrative expenses	(20 136)	(19 609)	(9 177)	(10 771)
Other operating income	236	1 609	213	210
Other operating expenses	(12 190)	(725)	(82)	(2 388)
Operating profit	**2 517**	**34 933**	**14 019**	**10 031**
Finance income	481	549	189	203
Finance costs	(8 035)	(9 148)	(4 887)	(5 101)
Finance income/(costs) – net	(7 554)	(8 599)	**(4 698)**	**(4 898)**
Profit before income tax	**(5 037)**	**26 334**	9321	5133
Income tax expense	(2 054)	(4 493)	(615)	(809)
Profit for the year	**(7 091)**	**21 841**	**8 706**	**4 324**

Income statement items "Cost of sales" and "Selling and distribution costs" for 2014 were restated in 2015. As per audited annual report for year 2014 "Cost of sales" amounted to USD 1,251,912 thousand and "Selling and distribution costs" amounted to USD 5,685 thousand.

Consolidated balance sheet:

USD, '000	**31.12.2014**	**31.12.2015**	**30.06.2016**
Total non-current assets	3 272	5 647	6 383
Inventories	237 593	222 146	243 774
Trade and other receivables	111 756	116 569	85 135
Cash and cash equivalents	38 197	31 958	23 942
Other current assets	1 835	5 137	4 357
Total current assets	389 381	375 810	357 208
Total assets	**392 653**	**381 457**	**363 591**
Total equity	87 091	97 839	95 179
Trade and other payables	228 650	195 599	198 249
Interest-bearing loans and borrowings	74 854	85 168	66 904
Other liabilities	2 058	2 851	3 259
Total liabilities	305 562	283 618	268 412
Total equity and liabilities	**392 653**	**381 457**	**363 591**

		On 12 July 2016 current bondholders of the Issuer's bond with ISIN code LV0000801892 voted and agreed to the proposed waiver by permitting dividend pay-out to equity holders of the parent company in amount of EUR 5.5 million or approximately 50 % of the profit attributable to the equity holders of the parent company. There has been no other material adverse change in the prospects of the Issuer since date of the audited consolidated
B.13	A description of any recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency	There have not been any recent material events that would be relevant for assessing solvency of the Issuer.
B.15	Description of the Issuer's principal activities	ELKO Group is engaged in distribution of IT hardware, software and consumer electronics with direct presence in ten countries. ELKO Group distinguishes three primary markets – the Baltic's (Estonia, Latvia, Lithuania), the CIS (Russia, Ukraine, Kazakhstan) and the CEE (Romania, Slovakia, Czech Republic and Slovenia) and other countries which are mainly located in Balkan region.
B.16	To the extent known to the Issuer state whether the Issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control	None of the shareholders has direct or indirect control over the Issuer. The current structure of the Issuer's shareholders is as follows: • Ashington Business Inc. Limited (UK) – 19.78% of share capital; • Solsbury Inventions Limited (UK) – 19.71% of share capital; • Amber Trust II S.C.A. (Luxembourg) – 17.67% of share capital; • SOLO Investīcijas IT SIA (Latvia) – 10.20% of share capital; • EUROTRAIL SIA (Latvia) – 10.96% of share capital; • Whitebarn SIA (Latvia) – 10.96 % of share capital; • KRM Serviss SIA (Latvia) – 10.72% of share capital.
B.17	Credit ratings assigned to the Issuer or its debt securities at the request or with the cooperation of the Issuer in the rating process	Not applicable. There is no credit rating assigned neither to the Issuer nor to the Issuer's debt securities.

Section C. Securities

Element and Disclosure requirement		Information
C.1	A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number	Notes with an aggregate Nominal Value up to EUR 50,000,000 or its equivalent in USD. The Notes are dematerialized debt securities in bearer form. ISIN codes for each Series of Notes will be provided in the Final Terms.
C.2	Currency of the securities issue	EUR or USD
C.5	A description of any restrictions on the free transferability of the securities	The Notes are freely transferable securities. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws.

<table>
<tr>
<td>C.8
;
C.9</td>
<td>A description of any restrictions on the free transferability of the securities including:
• ranking
• limitations to those rights
• the nominal interest rate
• the date from which interest becomes payable and the due dates for interest
• where the rate is not fixed, description of the underlying on which it is based
• maturity date and arrangements for the amortization of the loan, including the repayment procedures
• an indication of yield
• name of representative of debt security holders</td>
<td>• Ranking
The Notes are equivalent to other unsecured liabilities of the Issuer. In case of Issuer's insolvency, Noteholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable regulatory enactments. There are no contracts or other transaction documents, which would subordinate the claims of Noteholders to other unsecured obligations of the Issuer. The Issuer is not prohibited from pledging assets in favour of other creditors.
• Issue Price
The Notes may be issued at their Nominal Value or at a discount or a premium to their Nominal Value.
• Interest Rate
Annual Interest Rate might be fixed, floating or Notes can be discounted (without interest payments). Type of interest rate, Annual Interest Rate and interest payment frequency and Interest Payment Dates will be specified in the Final Terms of the relevant Series of Notes.
Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the Nominal Value of Notes outstanding from time to time. The first interest period commences on the Issue Date and ends on the first Interest Payment Date. Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment date. The last interest period ends on the Maturity Date.
• Floating interest rate
If interest rate for Notes is floating, the Final Terms of the relevant Series of Notes will contain the floating money market index (base rate) used in the calculation of floating interest rate and day count convention for interest and yield calculation.
• Maturity date and repayment
Noteholders have a right to receive Nominal Value payments.
Each Series of Notes may have a maturity between 1 (one) to 10 (ten) years. Maturity will be specified in the Final Terms of the relevant Series of Notes.
The Notes may be repaid in full at their Nominal Value at the Maturity Date or paid in instalments according to the repayment schedule fully or partially at the Maturity Date. The Issuer may have a right to redeem the Notes prior to the Maturity Date (call option), and Noteholders may have a right to demand early redemption of Notes (put option).
Maturity date, repayment procedure, call and/or put options will be specified in the Final Terms of the relevant Series of Notes.
• Yield
For floating rate Notes the yield on Notes depends on changes in base interest rate on the interbank market. For discounted and fixed-rate Notes the yield depends on purchase price.
• Representative of debt security holders
The rights of the Noteholders to establish and/or authorize an organization/person to represent interests of all or a part of the Noteholders are not contemplated, but on the other hand these are not restricted. The Noteholders should cover all costs/fees of such representative(s) by themselves.</td>
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C.10	If the security has a derivative component in the interest payment, provide clear and comprehensive explanation to help investors understand how the value of their investment is affected by the value of the underlying instrument(s)m especially under the circumstances when the risks are most evident	Not applicable. There is no derivative component embedded in the terms of the Notes.
C.11	An indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in question	The Issuer will submit an application regarding inclusion of each Series of Notes in the Baltic Bond List of Nasdaq Riga. An application will be submitted to Nasdaq Riga not later than 3 (three) months after the Issue Date of the respective Series of Notes.

Section D. Risks

Element and Disclosure requirement		Information
D.1; D.2	Key information on the key risks that are specific to the issuer or its industry	The risks indicated in this section may reduce Issuer's ability to fulfil its obligations and cause its insolvency in the worst-case scenario. Noteholders have to take into account that Notes are not secured with collateral and third parties have not guaranteed Notes and interest payments related thereto. This section may not feature all the potential risks, which may affect the Issuer. • **Macroeconomics** ELKO Group is engaged in distribution of IT hardware, software and consumer electronics with direct presence in ten countries. ELKO Group distinguishes three primary markets – the Baltic's (Estonia, Latvia, Lithuania), the CIS (Russia, Ukraine, Kazakhstan) and the CEE (Romania, Slovakia, Czech Republic and Slovenia) and other countries which are mainly located in Balkan region. Profitability of the Issuer depends on the further growth of each of the countries where ELKO Group distributes products. • **Changes in customs regulations** Substantial share of the IT and consumer electronics products are manufactured in the People's Republic of China. ELKO Group receives the goods in its warehouses in the Netherlands and Finland. In order to distribute the products in the EU and non-EU countries ELKO Group has to arrange transportation to and customs clearance as well as ensure timely payment of VAT and import duties if any. The change in legal acts and interpretation of regulations by various state agencies in the respective countries may cause delay, penalties and in the worst-case scenario arrest of cargo. ELKO Group cooperates with logistics partners that have extensive knowledge of customs regulations thus diminishing any risk associated with imports. • **Competition risk** The markets in which ELKO Group operates are characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing needs of customers. ELKO Group's competitors include national, regional and international IT distributors. Competition in the market for the distribution of IT products is generally based on vendor and product selection and availability, price, ability to tailor solutions to specific customer needs, service, support and training, willingness to provide credit, ability to provide logistics services on behalf of the vendor and speed of delivery. To remain competitive and to protect profit margins, ELKO Group must offer new products that keep pace with such developments and must respond to customer requirements on a timely basis. In particular, the IT wholesale distribution industry is characterized by stagnating or downward pressure on gross margins primarily as a result of increasing competition within the industry and changes in product mix. There can be no assurance that ELKO Group will manage to mitigate this risk effectively and will not be forced to reduce prices in the future in response to the actions of its competitors and thereby experience decreases in its gross or net margins. • **Relations with key vendors** ELKO Group depends on a number of key vendors to purchase particular products in the required quantities and to fulfil customer orders on a timely basis. Should ELKO Group experience any prolonged shortages or delays in deliveries by ELKO Group's vendors, the price it pays for those products may increase or the products may not be available at all. Further, a vendor may terminate the ELKO Group's right to sell some or all of its products or change the terms and conditions of the vendor relationship or reduce or discontinue the incentives or programs offered.

		• **Inventory management** Because ELKO Group maintains certain inventories in order to ensure that the lead times to customers remain competitive, it is subject to the risk of inventory obsolescence. If major vendors decrease the availability of price protection to ELKO Group, such a change in policy could lower ELKO Group's gross margin on products it sells or cause it to record inventory write-downs. ELKO Group is also exposed to inventory risk to the extent that vendor protections are not available on all products or quantities and are subject to time restrictions. In addition, during an economic downturn, it is possible that prices will decline due to an oversupply of product, and therefore there may be greater risk of declines in inventory value. If ELKO Group fails to successfully manage inventory obsolescence risks, its business, financial condition and results of operations may suffer. • **Financial leverage** ELKO Group's business model depends on the ability to distribute large quantities of products. In order to achieve this ELKO Group utilizes credit lines of several banks in Latvia, Romania, Russia and elsewhere. Credit lines are normally secured with inventory and accounts receivables with typical maturity of one year. ELKO Group's relations with commercial banks are important for future development. Each year ELKO Group negotiates the terms of the respective credit lines. There is no assurance that the Issuer is able to continue borrowing from the banks on favourable conditions. • **Foreign exchange risk** ELKO Group mostly trades in local currencies, while its liabilities are mostly in USD. ELKO Group has implemented sophisticated currency risk calculation procedure, with main risks associated with Russian Rouble (RUB) and Romanian Leu (RON). Currently currency risk is assessed on weekly basis and subsequently actions are taken to mitigate indicated risk. To cover currency risks ELKO Group uses natural hedges (to possible extent – accounts payable matching with inventory and accounts receivable), as well as currency hedging and swapping. • **Dependence on warehouse and logistics partners** ELKO Group relies almost entirely on arrangements with third-party warehouse and shipping companies for the storage and delivery of its products. Consistent with industry practice, ELKO Group's contractual arrangements with such third-party providers are for one-year durations, which are then regularly renewed for subsequent one-year periods. However, there is no guarantee that the contract will be renewed. The termination of these arrangements with one or more of such third-party warehouse and shipping companies, or the failure or inability of one or more of these third-party warehouse and shipping companies to deliver products from vendors to the Group, store the products or deliver products from the Group to its customers could cause a disruption in its business operations and harm its reputation and results of operations. • **Operational risks** Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful inner processes, personnel management, systems, or external circumstances.

		• **IT systems** ELKO Group depends on certain key information systems to manage its operations, in particular JD Edwards Enterprise One for inventory control and locally adapted and, in some cases, internally developed accounting platforms for sales. Any failure or significant disruption in ELKO Group's information systems could prevent it from taking customer orders or shipping products in a timely manner or prevent it from monitoring and maintaining optimum inventory levels. • **Dependence on managing employees** In the future, the Issuer's activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is competition for personnel with the relevant skills and experience in Latvia (main office) and in other countries, and it is comparatively high; however, the Issuer has successful experience in the field of personnel management, offering education, professional growth, and development possibilities, as well as different motivation programs to the employees. • **Credit risk of clients** ELKO Group's customers have a period of time, generally 7 to 90 days after the date of invoice, depending on the type of customer, in which to effect payment. As a result, ELKO Group is subject to the risk that its customers will not pay or will delay the payment for the products and services they purchased. This credit exposure risk may increase due to liquidity or solvency issues experienced by ELKO Group's customers, for example, as a result of an economic downturn or an adverse change in their business. ELKO Group assigns credit to customers according to internal credit policy, which is centrally developed yet tailored for each specific region, applying thorough internal analysis of ELKO Group's customers and seeking to diversify and limit its credit risk exposure. Furthermore, ELKO Group uses other tools to mitigate credit risk starting from blocking all shipments to any customer with delay, continuing with sophisticated alert system that signalizes about changes in customers payment and buying habits, and ending with different kinds of collaterals, including credit insurance for limits.
D.3	Key information on the key risks that are specific to the securities	• **Suitable investment risk** Each Potential Investor in the Notes must determine the suitability of that investment in light of its own circumstances. • **Notes repayment risk** Notes are equivalent to other unsecured loans of the Issuer. In case of Issuer's insolvency, Noteholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable regulatory enactments. There are no contracts or other transaction documents, which would subordinate the claims of Noteholders to other unsecured obligations of the Issuer. The Issuer is not prohibited from pledging assets in favour of other creditors. • **Liquidity risk** Despite that Notes are planned to be included in the Baltic Bond List, neither the Issuer, nor any other person guarantees the minimum liquidity of Notes. Noteholders should take into account that there may be difficulties in selling Notes in the secondary market. • **Price risk** Notes will be repaid for their Nominal Value, yet the price in the secondary market may change significantly. Neither the Issuer, nor any other person undertakes to maintain a certain price level of Notes. • **Tax risk** Tax rates and tax payment procedure applicable at the moment of purchase of Notes to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate for the increase in taxes to Noteholders, therefore Noteholders may receive smaller payments related to Notes.

Section E. Offer

Element and Disclosure requirement		Information
E.2b	Reasons for the offer and use of proceeds when different from making profit and/or hedging certain risks	Funds that will be raised as a result of the Programme for the issuance of Notes issue will be used: • in the ordinary course of business of the Issuer. The funds received from the Notes will be mostly used to purchasing products from vendors and selling them on credit to the Issuer's clients. • for financing part of the capital expenditure. • for financing of potential M&A transactions.
E.3	A description of the terms and conditions of the offer	Terms and conditions will be specified in the Final Terms of the respective Series of Notes.
E.4	A description of any interest that is material to the issue/offer including conflicting interests	Baltikums Bank AS (the Issuing Agent) is organizing the Notes issue and may have other business transactions with the Issuer.
E.7	Estimated expenses charged to the investor by the issuer or the offeror	All the expenses related to the acquisition and custody of Notes are borne by an investor in compliance with the price-list of a credit institution or investment service provider, through which the investor purchases and keeps Notes. The Issuer is not obliged to compensate for expenses incurred by the investor. The investor may have additional tax payment obligations related to Notes depending on the investor's country of residence. The Issuer will deduct taxes from interest payments in compliance with the applicable legal acts of the Republic of Latvia.

2. Kopsavilkums

A. iedaļa. Ievads un brīdinājumi.

Elements un prasība informācijas sniegšanai		Informācija
A.1	Brīdinājums ieguldītājiem	• Šis kopsavilkums jāskata kā Prospekta ievads, • Pieņemot ikvienu lēmumu veikt ieguldījumu vērtspapīros, Potenciāls Ieguldītājs apsver Prospektu kopumā, • Ja prasība saistībā ar informāciju Prospektā tiek iesniegta tiesā, Potenciālajam Ieguldītājam, kas ir prasītājs, saskaņā ar dalībvalstu tiesību aktiem var veidoties pienākums segt izmaksas par Prospekta tulkošanu pirms tiesas procesa uzsākšanas, • Civiltiesiskā atbildība tiek piemērota tikai tām personām, kas iesniegušas kopsavilkumu kopā ar tā tulkojumu un piemērojušas paziņojumu, bet tikai tādos gadījumos, kad kopsavilkums ir maldinošs, neprecīzs vai nekonsekvents, ja to skata kopā ar citām Prospekta daļām, vai, ja to skata kopā ar citām Prospekta daļām, tas nesniedz būtiskāko informāciju, kas palīdzētu Potenciālajam Ieguldītājam pieņemt lēmumu veikt ieguldījumu šādos vērtspapīros.

B. iedaļa. Emitents un ikviens garantijas devējs

Element and Disclosure requirement		Information
B.1	Emitenta juridiskais nosaukums un komercnosaukums	Emitenta juridiskais nosaukums ir akciju sabiedrība “ELKO GRUPA”.
B.2	Emitenta atrašanas valsts un juridiskā forma, tiesību akti, saskaņā ar kuriem Emitents darbojas, un tā dibināšanas valsts	Emitents ir reģistrēts Latvijas Republikā kā akciju sabiedrība. Tas darbojas saskaņā ar Latvijas Republikas likumiem un tā galvenais birojs atrodas Rīgā, Latvijā. Galvenie normatīvie akti, kas reglamentē Emitenta darbību: • Latvijas Republikas Komerclikums, • Civillikums, • Darba likums un saistoši Ministru Kabineta noteikumi.
B.4b	Informācija par visām apzinātajām tendencēm, kas ietekmējušas Emitentu un nozari, kurā tas darbojas	Prospekta parakstīšanas dienā nepastāv informācija vai zināmas tendences, kas var ievērojami ietekmēt Emitenta finanšu stāvokli un nozares, kurās Emitents darbojas.

B.5; B.14	Grupas apraksts un Emitenta dalība grupā	Emitents ir grupas galvenais uzņēmums. Emitents ir holdinga uzņēmums šādām meitas sabiedrībām: • ELKO Lietuva UAB (Lietuvu) – 100% pieder Emitentam; • ELKO Eesti OU (Igaunija) – 100% pieder Emitentam; • ELKOTech Romania SRL (Rumānija) – 100% pieder Emitentam; • ELKO Trading Switzerland AG (Šveice) – 100% pieder Emitentam; • ELKOTEX d.o.o. (Slovēnija) – 51% pieder Emitentam; • WESTech spol. s r.o. (Slovākija) – 51% pieder Emitentam; • ELKO Kazakhstan LLP (Kazahstāna) – 100% pieder Emitentam; • ELKO Mobile Limited (Kipra) – 51% pieder Emitentam; • ELKO Marketing Limited (Kipra) – 100% pieder Emitentam; • ELKO Ukraine Ltd (Ukraina) – 0.1% pieder Emitentam. WESTech spol. s r.o. (Slovākija) ir holdinga uzņēmums WESTech CZ s.r.o. (Čehija) – 100% pieder WESTech spol. s r.o. (Slovākija); WESTech solutions s.r.o. (Čehija) – 25% pieder WESTech spol. s r.o. (Slovākija). ELKO Marketing Limited (Kipra) ir holdinga uzņēmums šādām meitas sabiedrībām: • Alma Ltd (Krievija) – 100% pieder ELKO Marketing Limited; • ELKO Ukraine Ltd (Ukraina) – 99.9% pieder ELKO Marketing Limited.
B.9	Peļņas prognoze vai novērtējums	Emitents nav iekļāvis peļnas prognozi vai novērtējumu Prospektā.
B.10	Ierunas finanšu informācijas revīzijas ziņojumā	2015. un 2014. gada finanšu gada pārskata revīzijas ziņojumos nav bijušas iebildes.

B.12	Būtiskākā Emitenta iepriekšējā finanšu informācija Paziņojums, ka kopš pēdējā publicētā Emitenta finanšu pārskata nav notikšas būtiskas negatīvas izmaiņas Emitenta perspektīvās vai apraksts par jebkādām būtiskām izmaiņām Apraksts par būtiskām izmaiņām finanšu vai biznesa apstākļos periodā pēc atklātās finanšu informācijas	Būtiskākā vēsturiskā informācija ir balstīta uz konsolidētājiem revidētājiem gada pārskatiem par 2014. un 2015. gadiem un konsolidētajiem nerevidētajiem finanšu pārskatiem par 2015. un 2016. gada sešiem mēnešiem. Konsolidētais ienākumu pārskats:

USD, '000	2014	2015	1H 2015	1H 2016
Apgrozījums	1 292 204	1 264 020	514 388	541 515
Pārdotās produkcijas izmaksas	(1 252 589)	(1 205 935)	(489 109)	(516 111)
Bruto peļņa	**39 615**	**58 085**	**25 279**	**25 404**
Pārdošanas izmaksas	(5 008)	(4 427)	(2 214)	(2 424)
Administrācijas izmaksas	(20 136)	(19 609)	(9 177)	(10 771)
Pārējie saimnieciskās darbības ieņēmumi	236	1 609	213	210
Pārējās saimnieciskās darbības izmaksas	(12 190)	(725)	(82)	(2 388)
Saimnieciskās darbības peļņa	**2 517**	**34 933**	**14 019**	**10 031**
Finanšu ieņēmumi	481	549	189	203
Finanšu izmaksas	(8 035)	(9 148)	(4 887)	(5 101)
Finanšu izmaksas, neto	(7 554)	(8 599)	**(4 698)**	**(4 898)**
Peļņa no turpinātajām darbībām pirms nodokļiem	**(5 037)**	**26 334**	9321	5133
Uzņēmumu ienākuma nodoklis	(2 054)	(4 493)	(615)	(809)
Pārskata gada peļņa no turpinātajām darbībām	**(7 091)**	**21 841**	**8 706**	**4 324**

Ienākuma pārskatā par 2014. gadu "Pārdotās produkcijas izmaksas" un "Pārdošanas izmaksas" posteņi ir pārrēķināti 2015. gadā. Saskaņā ar 2014. gada revidēto gada pārskatu "Pārdotās produkcijas izmaksas" sastādīja USD 1,251,912 tūkstošus un "Pārdošanas izmaksas" sastādīja USD 5,685 tūkstošus.

Konsolidētā bilance:

USD, '000	31.12.2014	31.12.2015	30.06.2016
Ilgtermiņa ieguldījumi kopā	3 272	5 647	6 383
Krājumi	237 593	222 146	243 774
Pircēju un pasūtītāju parādi un citi debitori	111 756	116 569	85 135
Naudas un naudas ekvivalenti	38 197	31 958	23 942
Citi apgrozāmie līdzekļi	1 835	5 137	4 357
Apgrozāmie līdzekļi kopā	389 381	375 810	357 208
Kopā aktīvs	**392 653**	**381 457**	**363 591**
Kopā pašu kapitāls	87 091	97 839	95 179
Parādi piegādātājiem un darbuzņēmējiem	228 650	195 599	198 249
Procentu aizņēmumi	74 854	85 168	66 904
Citas saistības	2 058	2 851	3 259
Kopā kreditori	305 562	283 618	268 412
Kopā pasīvs	**392 653**	**381 457**	**363 591**

		2016.gada 12.jūlijā obligacionāri, kam pieder Emitenta obligācijas ar ISIN kodu LV0000801892 balsoja un piekrita piedāvātajam atbrīvojumam, atļaujot dividenžu izmaksu mātes uzņēmuma akcionāriem EUR 5.5 miljonu apmērā vai aptuveni 50% no peļņas, kas ir attiecināma uz mates uzņēmuma akcionāriem. Kopš 2015. gada revidētā gada pārskata publicēšanas datuma Emitenta perspektīvās būtisku negatīvu izmaiņu nav bijis.
B.13	Pēdējo būtisko notikumu apraksts Emitenta maksātspējas novērtēšanai	Pēdējā laikā nav bijuši nekādi svarīgi notikumi, kas ir būtiski Emitenta maksātspējas novērtēšanai.
B.15	Emitenta galvenās darbības jomas	ELKO Group nodarbojas ar IT aparatūras, programmnodrošinājuma, plaša patēriņa elektronisko preču izplatīšanu ar tiešu klātbūtni desmit valstīs. ELKO Group izdala trīs pamata tirgus – Baltijas valstis (Igaunija, Latvija, Lietuva), NVS (Krievija, Ukraina, Kazahstāna) un Centrālās un Austrumeiropas valstis (Rumānija, Slovākija, Čehijas Republika un Slovēnija), kā arī atsevišķas valstis, kas pārsvarā atrodas Balkānu reģionā.
B.16	Norāda, ciktāl Emitentam tas ir zināms, ikvienas personas vārdu, kurai tieši vai netieši ir tāda līdzdalība emitenta kapitālā vai balsstiesībās, norādot arī katras šādas personas līdzdalības apmēru	Nevienam no akcionāriem nav tiešas vai netiešas kontroles pār Emitentu. Pašreizējā Emitenta akcionāru struktūra ir šāda: • Ashington Business Inc. Limited (Lielbritānija) – 19.78% no pamatkapitāla; • Solsbury Inventions Limited (Lielbritānija) – 19.71% no pamatkapitāla; • Amber Trust II S.C.A. (Luksemburga) – 17.67% no pamatkapitāla; • SOLO Investīcijas IT SIA (Latvija) – 10.20% no pamatkapitāla; • EUROTRAIL SIA (Latvija) – 10.96% no pamatkapitāla; • Whitebarn SIA (Latvija) – 10.96 % no pamatkapitāla; • KRM Serviss SIA (Latvija) – 10.72% no pamatkapitāla.
B.17	Norāda kredītvērtējumus, kas, pēc emitenta pieprasījuma vai emitentam sadarbojoties vērtēšanas procesā, izsniegti par emitentu vai tā parāda vērtspapīriem	Nav piemērojams. Nedz Emitentam, nedz Obligāciju emisijai nav piešķirts kredītreitings.

C.iedaļa. Vērtspapīri

Elements un prasība informācijas sniegšanai		**Informācija**
C.1	Piedāvāto un/vai tirgū iekļauto vērtspapīru veids un kategorija, ieskaitot vērtspapīru indetifikācijas numuru	Obligācijas ar kopējo nominālvērtību līdz EUR 50,000,000 vai ekvivalentu USD. Obligācijas ir dematerializēti uzrādītāja parāda vērtspapīri. Katras Sērijas ISIN kods tiks norādīts katras Sērijas Galīgajos Nosacījumos.
C.2	Vērtspapīru emisijas valūta	EUR vai USD
C.5	Vērtspapīru brīvas pārvedamības ierobežojumu apraksts	Obligācijas ir brīvi pārvedami vērtspapīri. Tomēr Obligācijas nevar tikt piedāvātas, pārdotas, tālākpārdotas, pārvestas vai nodotas tādās valstīs vai jurisdikcijās vai citādi, tādos apstākļos, kur šādu pasākumu īstenošana ir pretlikumīga vai paredz tādu papildu pasākumu īstenošanu, kādi netiek paredzēti Latvijas Republikas tiesību aktos.

C.8; C.9	No obligācijām izrietošo brīvas pārvedamības ierobežojumu apraksts, ieskaitot: • dalījumu kategorijās • tiesību ierobežojumus • nominālo procentu likmi • dienu, no kuras jāveic procentu maksājumi • ja likme nav fiksēta, pamata instrumenta, kas pamato likmi, apraksts • dzēšanas datumu un aizņēmuma amortizācijas noteikumus, ieskaitot atmaksāšanas kārtību • ienesīguma prognozes • parāda vērtspapīru turētāju pārstāvja nosaukumu	• **Dalījums kategorijās** Obligācijas ir vienlīdzīgas ar citiem Emitenta nenodrošinātajiem aizņēmumiem. Emitenta maksātnespējas gadījumā, Obligacionāriem ir tādas pašas tiesības saņemt savu ieguldījumu, kā citiem attiecīgās grupas kreditoriem saskaņā ar piemērojamajiem normatīvajiem aktiem. Nepastāv līgumi vai citi darījumu dokumenti, kas pakārtotu Obligacionāru prasības citām Emitenta nenodrošinātajām saistībām. Emitentam nav aizliegts ieķīlāt aktīvus par labu citiem kreditoriem. • **Emisijas cena** Obligācijas var tikt emitētas to Nominālvērtībā vai arī piemērojot emisijas atlaidi vai emisijas uzcenojumu. • **Procentu likme** Gada Procentu Likme var būt fiksēta, mainīga vai Obligācijas var būt ar diskontu (bez procentu maksājumiem). Procentu likmes tips, Gada Procentu Likme un procentu maksājumu biežums un Procentu Maksājumu Datumi tiks norādīts katras Sērijas Galīgajos Nosacījumos. Procenti tiek uzkrāti par konkrētajā brīdī neatmaksāto Obligāciju Nominālvērtību par katru procentu periodu no procentu perioda pirmās dienas (ieskaitot) līdz procentu perioda pēdējai dienai (neieskaitot). Pirmais procentu periods sākas Emisijas Datumā un noslēdzas pirmajā Procentu Samaksas Datumā. Katrs nākamais procentu periods sākas iepriekšējā Procentu Samaksas Datumā un noslēdzas nākamajā Procentu Samaksas Datumā. Pēdējais procentu periods noslēdzas Dzēšanas Datumā. • **Mainīga procentu likme** Ja Obligāciju procentu likme ir mainīga, tad katras Sērijas Galīgajos Nosacījumos tiks norādīts mainīgās procentu likmes aprēķinā izmantotais naudas tirgus indekss (bāzes likme) vai mainīgā procentu likme un dienu skaita konvencija procentu un ienesīguma aprēķināšanai. • **Dzēšanas datums un atmaksa** Obligacionāriem ir tiesības saņemt Nominālvērtības maksājumus. Katras Obligāciju Sērijas dzēšanas termiņš var būt robežās no 1 (viena) līdz 10 (desmit) gadiem. Dzēšanas termiņš tiks norādīts katras Sērijas Galīgajos Nosacījumos. Obligācijas tiks atmaksātas to Nominālvērtības pilnā apmērā Dzēšanas Datumā vai atmaksātas pakāpeniski saskaņā ar atmaksas grafiku pilnā apmērā vai daļēji Dzēšanas Datumā. Emitentam var būt tiesības veikt Obligāciju pirmstermiņa dzēšanu pirms Dzēšanas Datuma (call opcija) un Obligacionāriem var būt tiesības pieprasīt Obligāciju pirmstermiņa atmaksu (put opcija). Dzēšanas datums, dzēšanas kārtība, pirmstermiņa dzēšanas tiesības (call un/vai put opcijas) tiks norādītas katras Sērijas Galīgajos Nosacījumos. • **Ienesīgums** Mainīgas procentu likmes gadījumā Obligāciju ienesīgums ir atkarīgs no bāzes procentu likmju izmaiņām starpbanku tirgū. Fiksētu procentu likmju un diskontētu obligāciju gadījumā ienesīgums ir atkarīgs no Obligāciju iegādes cenas. • **Obligacionāru pārstāvis** Obligacionāru tiesības izveidot un/vai pilnvarot kādu fizisku vai juridisku personu pārstāvēt visu Obligacionāru vai kādas daļas intereses netiek noteiktas, taču nav paredzēti šādi tiesību ierobežojumi. Obligacionāriem ir pienākums pašiem segt visas izmaksas/izdevumus, kas ir saistīti ar šādas pārstāvniecības nodrošināšanu.

C.10	Ja procentu maksājums par vērtspapīru ir balstīts uz atvasinātu instrumentu, sniedziet skaidru un izsmeļošu skaidrojumu, lai palīdzētu ieguldītājiem izprast, kā to ieguldījumu vērtību ietekmē šāda (-u) instrumenta (-u) vērtība, jo īpaši izteikta riska apstākļos	Nav piemērojams. Obligāciju nosacījumi nav balstīti uz atvasinātajiem instrumentiem.
C.11	Informācija par to vai par piedāvātajiem vērtspapīriem ir/tiks iesniegts pieprasījums par iekļaušanu tirgū to izplatīšanai regulētā tirgū vai kādā citā līdzvērtīgā tirgū, norādot attiecīgos tirgus	Emitents iesniegs pieteikumu par katras Obligāciju Sērijas iekļaušanu Nasdaq Riga Baltijas Parāda vērtspapīru sarakstā. Šāds pieteikums tiks iesniegts Nasdaq Riga 3 (trīs) mēnešu laikā pēc attiecīgās Sērijas Emisijas Datuma.

D. iedaļa. Riski

Elements un prasība informācijas sniegšanai		Informācija
D.1; D.2	Svarīgākā informācija par būtiskākajiem riskiem, kas ir raksturīgi Emitentam un tā nozarei	Šajā sadaļā uzskaitītie riski var samazināt Emitenta spēju izpildīt savas saistības un vissliktākajā gadījumā var izraisīt tā maksātnespēju. Obligacionāriem jāņem vērā, ka Obligācijas nav nodrošinātas, un trešās personas nav galvojušas par Obligācijām un ar tām saistītajiem procentu maksājumiem. Šajā sadaļā var nebūt uzskaitīti visi potenciālie riski, kas var ietekmēt Emitentu. • **Makroekonomika** ELKO Group nodarbojas ar IT aparatūras, programmnodrošinājuma un plaša patēriņa elektronisko preču izplatīšanu ar tiešu klātbūtni desmit valstīs. ELKO Group izdala trīs pamata tirgus – Baltijas valstis (Igaunija, Latvija, Lietuva), NVS (Krievija, Ukraina, Kazahstāna) un Centrālās un Austrumeiropas jeb CAE valstis (Rumānija, Slovākija, Čehijas Republika un Slovēnija), kā arī atsevišķas valstis, kas pārsvarā atrodas Balkānu reģionā. Emitenta rentabilitāte ir atkarīga no turpmākas izaugsmes katrā valstī, kurā ELKO Group izplata savus produktus. • **Izmaiņas muitas regulējumā** Ievērojama daļa IT un plaša patēriņa elektronisko preču tiek ražota Ķīnas Tautas Republikā. ELKO Group saņem preces noliktavās Nīderlandē un Somijā. Lai izplatītu produktus ES un ne-ES valstīs, ELKO Group jānodrošina transportēšana un atmuitošana, kā arī laicīgi jāveic PVN un piemērojamu importa nodevu samaksa. Grozījumi normatīvajos aktos un regulējuma interpretācija dažādās valsts institūcijās vai izraisīt kavējumus, sodus un vissliktākajā scenārijā arī kravas arestu. ELKO Group sadarbojas ar loģistikas partneriem, kas plaši pārzina muitas regulējumu, tādejādi samazinot jebkādu ar importu saistīto risku. • **Konkurences risks** Tirgiem, kuros ELKO Group veic darbību, ir raksturīgas straujas tehnoloģiskās pārmaiņas, bieža jaunu produktu ieviešana, nozaru standartu evolūcija un mainīgās klientu vajadzības. ELKO Group konkurentu starpā ir nacionāla, reģionāla un starptautiska mēroga IT izplatītāji. Tirgus konkurence IT produktu izplatīšanas jomā pārsvarā balstās uz piegādātāju un produktu pieejamību un sortimentu, spēju pielāgot risinājumus noteiktām klientu vajadzībām, apkalpošanu, atbalstu un apmācībām, gatavību pārdot ar pēcapmaksu, spēju sniegt loģistikas pakalpojumus pakalpojuma sniedzēja vārdā un piegādes ātrumu. Produktu dzīvescikli pārsvarā ir īsi un tehnoloģiskās attīstības tempi ir ātri. Lai saglabātu konkurētspēju un uzturētu uzņēmuma peļņas rentabilitāti, ELKO Group ir jāpiedāvā jauni produkti, kas neatpaliek no attīstības tendencēm, un nemitīgi jāseko klientu prasībām. IT vairumtirdzniecības izplatītāju nozarē novērojama stagnācija vai pat spiediens lejup uz bruto rentabilitāti, pārsvarā augošas konkurences sektorā, kā arī produktu klāsta izmaiņu rezultātā. Nav garantijas, ka ELKO Group spēs efektīvi samazināt šo risku un nebūs spiests turpmāk samazināt cenas, reaģējot uz konkurentu darbībām, kam sekotu bruto vai neto rentabilitātes samazinājums. • **Attiecības ar galvenajiem piegādātājiem** ELKO Group ir atkarīga no dažiem galvenajiem piegādātājiem, iegādājoties noteiktus produktus vajadzīgajos daudzumos, lai savlaicīgi izpildītu klientu pasūtījumus. Ja ELKO Group cietīs no ilglaicīga ELKO Group piegādātāju piegāžu nepilnīguma vai kavējumiem, tad cenas, kuras tā maksā par šiem produktiem, var palielināties, vai arī produkti var kļūt pilnībā nepieejami. Turklāt piegādātājs var atņemt ELKO Group tiesības pārdot atsevišķus vai visus tā produktus vai grozīt piegādātāja attiecību noteikumus, samazināt vai pārtraukt esošās atlaižu vai mārketinga programmas.

		• **Preču krājumu pārvaldīšana** Ņemot vērā to, ka ELKO Group uztur noteiktus preču krājumus, lai nodrošinātu, ka klientu pasūtījumu izpildes laiki paliek konkurētspējīgi, tā ir pakļauta krājumu novecošanas riskam. Ja lieli piegādātāji samazina ELKO Group pieeju cenu aizsardzības, šādas politikas izmaiņas varētu samazināt ELKO Group bruto rentabilitāti produktiem, kurus tā pārdod, vai spiest to atspoguļot krājumu norakstīšanā. ELKO Group ir pakļauta arī krājumu riskam, kamēr piegādātāju aizsardzība nav pieejama visiem produktiem vai apjomiem, un kamēr uz to attiecas laika ierobežojumi. Turklāt ekonomiskas lejupslīdes laikā ir iespējams, ka cenas samazināsies produkta pārmērīga piedāvājuma dēļ, līdz ar ko varētu palielināties krājumu vērtības samazināšanās risks. Ja ELKO Group nespēs veiksmīgi pārvaldīt krājumu novecošanas riskus, var ciest tās uzņēmējdarbība, finanšu stāvoklis un darbības rezultāti. • **Aizņēmumi** ELKO Group biznesa modelis ir atkarīgs no spējas izplatīt lielus produktu apjomus. Lai sasniegtu to, ELKO Group ir saņēmusi kredītlīnijas no vairākām bankām Latvijā, Rumānijā, Krievijā un citās valstīs. Kredītlīnijas parasti tiek nodrošinātas ar krājumiem un debitoru parādiem, tipiski ar viena gada termiņu. ELKO Group attiecības ar komercbankām ir svarīgas turpmākai attīstībai. Katru gadu ELKO Group apspriež attiecīgo kredītlīniju noteikumus. Pastāv risks, ka Emitents nespēs turpmāk aizņemties no bankām ar labvēlīgiem nosacījumiem. • **Ārvalstu valūtas risks** ELKO Group tirgo pārsvarā vietējās valūtās, lai gan tās saistības pārsvarā ir USD valūtā. Uzņēmums ir ieviesis kompleksu valūtu riska aprēķināšanas procedūru, un galvenie riski ir saistīti ar Krievijas rubli (RUB) un Rumānijas leju (RON). Valūtu risks tiek novērtēts katru nedēļu, pēc tam tiek veiktas darbības noteiktā riska samazināšanai. Lai segtu valūtu riskus, ELKO Group piemēro dabisko hedžēšanu (pēc iespējas savietojot debitorus ar krājumiem un kreditoriem), kā arī valūtu hedžēšanu un mijmaiņas darījumus. • **Atkarība no noliktavas un loģistikas partneriem** ELKO Group gandrīz pilnībā paļaujas uz vienošanām ar trešo personu noliktavu un transporta uzņēmumiem, lai nodrošinātu tās produktu uzglabāšanu un piegādi. Atbilstoši nozares praksei, ELKO Group līgumattiecības ar šādiem ārpakalpojumu sniedzējiem tiek noslēgtas ar viena gada termiņu un pēc tam regulāri tiek pārjaunotas turpmākiem viena gada periodiem. Tomēr nav garantijas, ka līgums tiks pārjaunots. Šādu vienošanos pārtraukšana ar vienu vai vairākiem noliktavu un transporta uzņēmumiem, vai šādu uzņēmumu nespēja nodrošināt produktu nogādāšanu no piegādātājiem ELKO Group, produktu uzglabāšanu un piegādi ELKO Group klientiem var izraisīt tās darbības pārtraukumu un negatīvi iespaidot uzņēmuma reputāciju un darbības rezultātus. • **Operational risks** Operacionālais risks ir iespēja ciest zaudējumus saistībā ar nepietiekamiem vai neveiksmīgiem iekšējiem procesiem, personāla darbību, sistēmām vai ārējiem apstākļiem. • **IT systems** ELKO Group ir atkarīga no noteiktām būtiskām informācijas sistēmām, lai pārvaldītu savu darbību, jo īpaši, no JD Edwards Enterprise One (krājumu kontrolei), kā arī dažos gadījumos no uzņēmuma ietvaros izstrādātajām platformām (pārdošanai). Jebkāda ELKO Group informācijas sistēmu kļūme vai pārtraukums var liegt tai iespēju pieņemt klientu pasūtījumus, piegādāt produktus laicīgi un/vai uzturēt optimālus krājumu apjomus.

		• **Atkarība no vadošajiem darbiniekiem** Emitenta panākumus nākotnē ietekmēs tā spēja piesaistīt, saglabāt un motivēt augsti kvalificētu un pieredzējušu personālu. Konkurence par personālu ar attiecīgajām iemaņām un pieredzi Latvijā (galvenajā birojā) un citās valstīs pastāv, un tā ir salīdzinoši liela, tomēr Emitentam ir veiksmīga pieredze personāla vadības jomā, piedāvājot darbiniekiem izglītošanās, profesionālas izaugsmes un attīstības iespējas, kā arī dažādas motivācijas programmas. • **Klientu kredītrisks** ELKO Group, pārdodot preces ar pēcapmaksu, dod iespēju klientiem apmaksāt rēķinu 7 līdz 90 dienu periodā, atkarībā no klienta tipa, kuram jāveic maksājums. Rezultātā ELKO Group pastāv risks, ka tās klienti neapmaksās iegādātos produktus vai pakalpojumus, vai arī kavēs maksājumus. Šādas kredītriska ekspozīcijas risks var palielināties, ja ELKO Group klientiem rodas likviditātes vai maksātspējas problēmas, piemēram, ekonomiskās lejupslīdes gadījumā, vai ja iestājas nelabvēlīgas pārmaiņas attiecībā uz to darbību. ELKO Group piemēro klientiem pēcapmaksas nosacījumus, saskaņā ar iekšējo kredītpolitiku, kas tiek izstrādāta centralizēti, bet tiek pielāgota katram reģionam atsevišķi, piemērojot cītīgu ELKO Group klientu analīzi un cenšoties diversificēt un ierobežot kredītriska ekspozīciju. ELKO Group piemēro arī citus rīkus kredītriska samazināšanai, sākot ar visu piegāžu bloķēšanu klientam, kurš kavē maksājumu, turpinot ar kompleksu paziņojumu sistēmu, kura signalizē par izmaiņām klientu maksājumu un iegādes ieradumos, un beidzot ar dažāda veida nodrošinājumiem, t.sk. kredītapdrošināšanas limitiem.
D.3	Svarīgākā informācija par būtiskākajiem riskiem, kas ir raksturīgi Obligācijām	• **Piemērota ieguldījuma risks** Katram Potenciālajam Ieguldītājam pašam ir jāpārliecinās par ieguldījuma piemērotību, ņemot vērā individuālos apstākļus. • **Obligāciju atmaksas risks** Obligācijas ir vienlīdzīgas ar citiem Emitenta nenodrošinātajiem aizņēmumiem. Emitenta maksātnespējas gadījumā Obligacionāriem ir tādas pašas tiesības saņemt savu ieguldījumu, kā citiem attiecīgās grupas kreditoriem saskaņā ar piemērojamajiem normatīvajiem aktiem. Nepastāv līgumi vai citi darījumu dokumenti, kas pakārtotu Obligacionāru prasības citām Emitenta nenodrošinātajām saistībām. Emitentam nav aizliegts ieķīlāt aktīvus par labu citiem kreditoriem. • **Likviditātes risks** Lai gan Obligācijas ir paredzēts iekļaut Parāda vērtspapīru sarakstā, nedz Emitents, nedz arī kāda cita persona negarantē Obligāciju minimālo likviditāti. Obligacionāriem vajadzētu ņemt vērā, ka var pastāvēt grūtības ar Obligāciju pārdošanu otrreizējā tirgū. • **Cenas risks** Obligācijas tiks dzēstas par to Nominālvērtību, taču otrreizējā tirgū to cena var būtiski mainīties. Nedz Emitents, nedz arī kāda cita persona neapņemas uzturēt noteiktu Obligāciju cenu līmeni. • **Nodokļu risks** Uz Obligāciju iegādes brīdi spēkā esošās nodokļu likmes un nodokļu nomaksas kārtība Latvijas nodokļu rezidentiem, nerezidentiem un citu valstu rezidentiem var mainīties. Emitents nekompensēs Obligacionāriem nodokļu palielinājumu, tādēļ Obligacionāri varētu saņemt mazākus ar Obligācijām saistītos maksājumus.

E. iedaļa. Piedāvājums

Elements un prasība informācijas sniegšanai		Informācija
E.2b	Norāda piedāvājuma iemeslus un ieņēmumu izmantošanu, ja tie nav peļņas gūšana un/vai nodrošināšanās pret dažiem riska veidiem	Līdzekļi, kas tiks saņemti Obligāciju emisijas rezultātā, tiks izmantoti: • Emitenta ikdienas darbības ietvaros, piemēram, preču iegādei no piegādātājiem un to pārdošanai Emitenta klientiem ar pēcapmaksu; • Finansējot daļu no kapitālieguldījumiem; • Finansējot iespējamos M&A darījumus.
E.3	Apraksta piedāvājuma nosacījumus	Piedāvājuma noteikumi tiks noteikti attiecīgās Obligāciju sērijas Galīgajos nosacījumos.
E.4	Apraksta intereses, kas ir būtiskas emisijai/piedāvājumam, tostarp konfliktējošas intereses	Baltikums Bank AS (Emisijas aģents) organize Obligāciju emisiju un tam var būt citi darījumi ar Emitentu.
E.7	Norāda paredzamo izdevumu tāmi, ko emitents vai piedāvātājs iesniedz ieguldītājam	Visus ar Obligāciju iegādi un glabāšanu saistītos izdevumus sedz ieguldītājs atbilstoši kredītiestādes vai ieguldījumu pakalpojuma sniedzēja, caur kuru ieguldītājs veic Obligāciju iegādi un glabāšanu, cenrādim. Emitentam nav pienākuma kompensēt ieguldītāja radušos izdevumus. Ieguldītājam var rasties ar Obligācijām saistītas papildus nodokļu nomaksas saistības atkarībā no ieguldītāja valsts rezidences. Emitents ieturēs nodokļus no procentu maksājumiem atbilstoši Latvijas Republikas normatīvajiem aktiem.

3. Kokkuvõte

A jagu – Sissejuhatus ja hoiatused

Element ja avalikustamisnõuded		Informatsioon
A.1	Hoiatus investoritele	• Käesolevat kokkuvõtet tuleb käsitada käesoleva Põhiprospekti sissejuhatusena; • Võlakirjadesse investeerimise üle otsustamisel peab uurima Põhiprospekti tervikuna, sealhulgas Põhiprospektile lisatud dokumente ning asjakohaste Võlakirjade Lõplikke Tingimusi. • Kui Liikmesriigi kohtule esitatakse käesolevas Põhiprospektis sisalduva teabega seonduv nõue, võib hagejal Liikmesriigi siseriikliku õiguse alusel olla kohustus kanda Põhiprospekti tõlkimise kulud enne kohtumenetluse algatamist; ja • tsiviilvastutust kohaldatakse üksnes selliste isikute suhtes, kes on käesoleva kokkuvõtte (kaasa arvatud selle tõlked) esitanud, kuid üksnes juhul, kui kokkuvõte on eksitav, ebatäpne või Põhiprospekti muude osadega vastuolus või ei anna koos Põhiprospekti teiste osadega lugedes põhiteavet, mis aitaks investoritel otsustada neisse väärtpaberitesse investeerimise üle.

B jagu – Emitent ja võimalikud tagajad

Element ja avalikustamisnõuded		Informatsioon
B.1	Emitendi juriidiline nimi ja ärinimi	Emitendi ärinimi on aktsiaselts (*akciju sabiedrība*) ELKO GRUPA.
B.2	Emitendi alaline asukoht ja õiguslik vorm, emitendi tegevuse suhtes kohaldatav õigus ja tema asutamise riik	Emitent on registreeritud Läti Vabariigi äriregistris aktsiaseltsina (*akciju sabiedrība*). Emitent tegutseb kooskõlas Läti Vabariigi õigusaktidega ja selle peakontor asub Riias Lätis. Põhilised Emitendi tegevuse suhtes kohaldatavad Läti Vabariigi õigusaktid: • äriseadus (*Komerclikums*); • tsiviilõigus (*Civillikums*); • tööõigus (*Darba likums*); ja • mis tahes siduv Läti valitsuse määrus (*Ministru Kabineta noteikumi*).
B.4b	Emitenti ja tema tegevusharu mõjutavate mis tahes teadaolevate suundumuste kirjeldus	Käesoleva Põhiprospekti kuupäeva seisuga puudub teave mistahes teadaolevate suundumuste kohta, mis mõistlikult eeldades võib omada rahalist mõju Emitendi väljavaadetele ja tegevusharudele, milles Emitent tegutseb.

B.5; B.14	Grupi kirjeldus ja emitendi positsioon grupis	Emitent on grupi emaettevõtja. Emitent on valdusettevõtja järgnevates tütarettevõtjates: • ELKO Lietuva UAB (Leedu) – Emitendile kuulub 100 protsenti; • ELKO Eesti OÜ (Eesti) – Emitendile kuulub 100 protsenti; • ELKOTech Romania SRL (Rumeenia) – Emitendile kuulub 100 protsenti; • ELKO Trading Switzerland AG (Šveits) – Emitendile kuulub 100 protsenti; • ELKOTEX d.o.o. (Sloveenia) – Emitendile kuulub 51 protsenti; • WESTech spol. s r.o. (Slovakkia) – Emitendile kuulub 51 protsenti; • ELKO Kazakhstan LLP (Kasahstan) – Emitendile kuulub 100 protsenti; • ELKO Mobile Limited (Küpros) – Emitendile kuulub 51 protsenti; • ELKO Marketing Limited (Küpros) – Emitendile kuulub 100 protsenti; • ELKO Ukraine Ltd (Ukraina) – Emitendile kuulub 0,1 protsenti. WESTech spol. s r.o. (Slovakkia) on valdusettevõtja järgnevates tütarettevõtjates. WESTech solutions s.r.o. (Tšehhi Vabariik) – WESTech spol. s r.o.-le (Slovakkia) kuulub 25 protsenti. ELKO Marketing Limited (Küpros) on valdusettevõtja järgnevates tütarettevõtjates: • Alma Ltd (Venemaa) – ELKO Marketing Limited-le kuulub 100 protsenti; • ELKO Ukraine Ltd (Ukraina) – ELKO Marketing Limited-le kuulub 99,9 protsenti.
B.9	Kasumiprognoos või -hinnang	Ei ole kohaldatav. Emitent ei ole käesolevas Põhiprospektis andnud kasumiprognoosi või -hinnangut.
B.10	Eelnevate perioodide finantsteavet käsitlevas auditiaruandes esinevate mis tahes märkuste olemuse kirjeldus	Auditeeritud konsolideeritud aastaaruanded, mis kajastavad 2014 ja 2015 lõppenud majandusaastaid, ei sisalda ühtegi märkust.

B.12

Emitenti puudutav valitud finantsteave

Avaldus selle kohta, et emitendi väljavaadetes ei ole olnud mingeid olulisi kahjulikke muudatusi alates tema viimaste avaldatud auditeeritud raamatupidamis-aruannete kuupäevast, või mis tahes toimunud olulise kahjuliku muudatuse kirjeldus

Finants- või kauplemispositsioonis pärast finantsteabega hõlmatud perioodi lõppu aset leidnud märkimisväärsete muutuste kirjeldus

Valitud finantsteave, mis põhineb 2014. ja 2015. majandusaasta auditeeritud konsolideeritud aruannetel ning auditeerimata finantsteabel kahe kuuekuulise vaheperioodi kohta majandusaastatel 2015 ja 2016.

Konsolideeritud kasumiaruanne:

USD, tuhandetes	**2014**	**2015**	**1H 2015**	**1H 2016**
Kauba müük	1 292 204	1 264 020	514 388	541 515
Müüdud kauba kulu	(1 252 589)	(1 205 935)	(489 109)	(516 111)
Kogukasum	**39 615**	**58 085**	**25 279**	**25 404**
Muud tegevustulud	(5 008)	(4 427)	(2 214)	(2 424)
Müügi- ja levituskulud	(20 136)	(19 609)	(9 177)	(10 771)
Halduskulud	236	1 609	213	210
Muud tegevuskulud	(12 190)	(725)	(82)	(2 388)
Ärikasum	**2 517**	**34 933**	**14 019**	**10 031**
Finantstulu	481	549	189	203
Finantskulu	(8 035)	(9 148)	(4 887)	(5 101)
Finantstulu/(-kulu) – neto	(7 554)	(8 599)	**(4 698)**	**(4 898)**
Kasum enne tulumaksustamist	**(5 037)**	**26 334**	**9321**	**5133**
Tulumaksukulu	(2 054)	(4 493)	(615)	(809)
Aasta kasum	**(7 091)**	**21 841**	**8 706**	**4 324**

2014. aasta kasumiaruande üksusi „müüdud kauba kulu“ ja „müügi- ja levituskulud“ korrigeeriti 2015. aastal. 2014. majandusaasta auditeeritud aruande „müüdud kauba kulu“ oli USD 1 251 912 000 ja „müügi- ja levituskulud“ olid USD 5 685 000.

Konsolideeritud bilansiaruanne:

USD, tuhandetes	**31.12.2014**	**31.12.2015**	**30.06.2016**
Kogu põhivara	3 272	5 647	6 383
Inventar	237 593	222 146	243 774
Nõuded ostjate vastu ja muud nõuded	111 756	116 569	85 135
Raha ja raha ekvivalendid	38 197	31 958	23 942
Muu käibevara	1 835	5 137	4 357
Kogu käibevara	389 381	375 810	357 208
Koguvara	**392 653**	**381 457**	**363 591**
Kogu omakapital	87 091	97 839	95 179
Võlad tarnijatele ja muud võlad	228 650	195 599	198 249
Intressimääraga antud ja võetud laenud	74 854	85 168	66 904
Muud kohustused	2 058	2 851	3 259
Kogukohustused	305 562	283 618	268 412
Kohustused ja omakapital kokku	**392 653**	**381 457**	**363 591**

12. juulil 2016 hääletasid ja nõustusid praegused Emitendi ISIN-koodiga LV0000801892 Võlakirja omanikud dividendide väljamaksmise ettepanekuga emaettevõtte omanikele summas EUR 5,5 miljonit, mis on ligikaudu 50% emaettevõtte omanike kasumist.

B.13	Mis tahes hiljutised emitenti puudutavad sündmused, mis on olulised emitendi maksevõimelisuse hindamiseks	Ei ole toimunud hiljutisi olulisi sündmusi, mis võiksid olla asjakohased hindamaks Emitendi maksejõulisust.
B.15	Emitendi põhitegevuste lühikirjeldus	ELKO Group tegeleb IT-riistvara, -tarkvara ja elektrooniliste tarbekaupade müügiga ja on otseselt esindatud kümnes riigis. ELKO Group eristab kolme põhiturgu)Baltimaad (Eesti, Läti, Leedu), SRÜ riigid (Venemaa, Ukraina, Kasahstan) ning Kesk- ja Ida-Euroopa riigid (Rumeenia, Slovakkia, Tšehhi Vabariik ja Sloveenia)) ja teisi riike, mis asuvad peamiselt Balkani poolsaarel.
B.16	Emitendile teadaolevas ulatuses avaldada, kas emitent on kellegi omandis või teda kontrollib keegi otseselt või kaudselt, ning kes seda teeb, ja kirjeldada selle kontrolli olemust	Ükski aktsionär ei kontrolli otseselt või kaudselt Emitenti. Emitendi aktsionäride struktuur praeguse seisuga on järgnev: • Ashington Business Inc. Limited (Ühendkuningriik) – aktsiakapitalist 19,78 protsenti; • Solsbury Inventions Limited (Ühendkuningriik) – aktsiakapitalist 19,71 protsenti; • Amber Trust II S.C.A. (Luksemburg) – aktsiakapitalist 17,67 protsenti; • SOLO Investīcijas IT SIA (Läti) – aktsiakapitalist 10,20 protsenti; • EUROTRAIL SIA (Läti) – aktsiakapitalist 10,96 protsenti; • Whitebarn SIA (Läti) – aktsiakapitalist 10,96 protsenti; • KRM Serviss SIA (Läti) – aktsiakapitalist 10,72 protsenti.
B.17	Emitendile või tema võlaväärtpaberitele emitendi taotlusel või temaga koostöös reitinguprotsessis määratud krediidireitingud	Ei ole kohaldatav. Emitendile või tema võlaväärtpaberitele ei ole krediidireitingut omistatud.

C jagu – Väärtpaberid

Element ja avalikustamisnõuded		Informatsioon
C.1	Pakutavate ja/või kauplemisele lubatud väärtpaberite liigi ja klassi kirjeldus, sealhulgas mis tahes identifitseerimisnumber	Võlakirjad nimiväätuste kogusummaga kuni EUR 50 000 000 või selle ekvivalent USA dollarites (USD). Võlakirjad on dematerialiseeritud esitajavõlainstrumendid. Lõplikes Tingimustes antakse iga Võlakirja Seeria eritamiseks neist igaühele eraldi ISIN-kood.
C.2	Väärtpaberite emiteerimise valuuta	EUR või USD
C.5	Väärtpaberite vabalt võõrandatavuse mis tahes piirangute kirjeldus	Võlakirjad on vabalt võõrandatavad väärtpaberid. Vaatamata eeltoodule ei saa Võlakirju pakkuda, müüa, edasi müüa, üle kanda või üle anda sellistes riikides ja jurisdiktsioonides või muudes taolistes oludes, kus see oleks ebaseaduslik või kus nõutakse muid meetmeid kui neid, mis on nõutavad Läti õigusaktidega.

C.8 ; C.9	Väärtpaberitega seotud õiguste kirjeldus, sealhulgas • järjekoht • nende õiguste suhtes kehtivad piirangud • nominaalne intressimäär • päev, millest hakatakse intressi arvestama, ja intressimaksete tähtpäevad • kui intressimäär ei ole fikseeritud, siis intressi määramise põhimõtete kirjeldus • laenu lõpptähtaeg ja amortiseerimise kord, sealhulgas tagasimakseviis • märge tulukuse kohta • võlaväärtpaberi omanike esindaja nimi	• **Järjekoht** Võlakirjad on kõigi Emitendi tagamata, garanteerimata ja allutamata kohustustega samaväärsed. Emitendi maksejõuetuse korral on Võlakirjaomanikel kohaldatavate regulatiivsete sätete alusel teiste vastava grupi võlausaldajatega samaväärne õigus oma investeeringute saamiseks. Ei eksisteeri ühtegi lepingut või muid tehingudokumente, mis allutaksid Võlakirjaomanike nõuded Emitendi teiste tagamata, garanteerimata või allutamata kohustustele. Emitendil ei ole keelatud teiste võlausaldajate nõuete rahuldamiseks oma varasid pantida. • **Emiteerimishind** Võlakirjad emiteeritakse kas nende nimiväärtuses, alla nimiväärtuse või üle nimiväärtuse. • **Intressimäär** Aastane Intressimäär võib olla fikseeritud, ujuv või Võlakirju võib emiteerida alla nimiväärtuse (ilma intressimakseteta). Intressimäära tüüp, Aastane Intressimäär ja intressimaksete sagedus määratakse kindlaks asjakohaste Võlakirjade Lõplikes Tingimustes. Intressi arvutatakse lunastamata Võlakirjadelt intressiperioodi põhiselt intressiperioodi esimesest päevast (kaasa arvatud) kuni intressiperioodi viimase päevani (välja arvatud). Esimene intressiperiood algab Emiteerimispäeval ning lõpeb esimesel Intressi Makse Kuupäeval. Iga järgmine intressiperiood algab eelmisel Intressi Makse Kuupäeval ning lõpeb järgmisel Intressi Makse Kuupäeval. Viimane intressiperiood lõpeb Tagasimaksekuupäeval. • **Ujuv intressimäär** Kui Võlakirjade intressimäär on ujuv, siis asjakohaste Võlakirjade Seeriate Lõplikes Tingimustes määratakse kindlaks muutuva rahaturu indeks (baasmäär), mida kasutatakse ujuva intressimäära arvutamiseks ning intressi ja tulukuse intressiarvestusmeetodi arvutamiseks. • **Tagasimaksekuupäev ja tagasimaksmine** Võlakirjaomanikel on õigus saada nimiväärtusele vastavaid makseid. Igal Võlakirjade Seerial võib tagasimaksetähtaeg olla 1 (ühe) kuni 10 (kümne) aasta vahel. Tagasimaksetähtaeg määratakse kindlaks asjakohaste Võlakirjade Seeriate Lõplikes Tingimustes. Võlakirjad lunastatakse täielikult nimiväärtuses Tagasimaksetähtpäeval või tasutakse osadena tagasimakse graafiku alusel kas täielikult või osaliselt Tagasimaksetähtpäeval. Emitendil võib olla õigus lunastada Võlakirju enne Tagasimaksetähtpäeva (ostuoptsioon) ja Võlakirjaomanikel võib olla õigus nõuda Võlakirjade varasemat lunastamist (müügioptsioon). Tagasimaksetähtpäev, tagasimakse kord, ostu- ja/või müügioptsioon määratakse kindlaks asjakohaste Võlakirjade Seeriate Lõplikes Tingimustes. • **Tulukus** Ujuva intressimääraga Võlakirjade tulukus sõltub pankadevahelise turu baasintressimäära muutustest. Alla nimiväärtuse ja fikseeritud intressimääraga Võlakirjade tulukus sõltub ostuhinnast. • **Võlaväärtpaberi omanike esindaja** Võlakirjaomanike õigust asutada ja/või volitada mõnda organisatsiooni/isikut esindama kõigi või osade Võlakirjaomanike huve ei ole kaalutud, kuid samas ei ole seda ka piiratud. Võlakirjaomanikud peavad kandma kõik nimetatud esindaja(te)ga seotud kulud ja tasud.

C.10	Kui väärtpaberil on intressimaksel tuletiskomponent, anda selge ja terviklik selgitus abistamaks investoritel mõista seda, kuidas nende investeeringute väärtust mõjutab alusvara instrumendi või instrumentide väärtus, eelkõige asjaoludel, mille puhul riskid on kõige ilmsemad	Ei ole kohaldatav. Võlakirjade intressimaksetel ei ole tuletiskomponenti.
C.11	Märge selle kohta, kas pakutavad väärtpaberid on hetkel või tulevikus kauplemisele lubamise taotluse objektiks, pidades silmas nende turustamist reguleeritud turul või muudel samaväärsetel turgudel ja märkides ära kõnealused turud	Emitent esitab avalduse iga Tranšee noteerimiseks Nasdaq Riga Balti põhinimekirjas. Avaldus esitatakse Nasdaq Riga mitte hiljem kui 3 (kolme) kuu jooksul pärast vastava Tranšee Emiteerimiskuupäeva.

D jagu – Riskid

Element ja avalikustamisnõuded		Informatsioon
D.1; D.2	Põhiteave peamiste emitendiga ja tema tegevusharuga seotud spetsiifiliste riskide kohta	Selles osas väljatoodud riskid võivad vähendada Emitendi võimekust täita oma kohustusi ja halvima stsenaariumi korral põhjustada selle maksejõuetuse. Võlakirjaomanikud peavad arvestama, et Võlakirjad ei ole tagatisega tagatud ja kolmandad osapooled ei ole Võlakirju ega nendega seotud intressimakseid taganud. See osa ei pruugi loetleda kõiki võimalikke riske, mis võivad Emitenti mõjutada. • **Makromajanduslikud tingimused** ELKO Group tegeleb IT-riistvara, -tarkvara ja elektrooniliste tarbekaupade müügiga ja on otseselt esindatud kümnes riigis. ELKO Group eristab kolme põhiturgu)Baltimaad (Eesti, Läti, Leedu), SRÜ riigid (Venemaa, Ukraina, Kasahstan) ja Kesk- ja Ida-Euroopa riigid (Rumeenia, Slovakkia, Tšehhi Vabariik ja Sloveenia)) ja teisi riike, mis asuvad peamiselt Balkani poolsaarel. Emitendi kasumlikkus sõltub edasisest majanduskasvust igariigis, kus ELKO Group oma tooteid müüb. • **Tollieeskirjade muutused** Suur osa olmeelektroonika ja IT-toodetest toodetakse Hiina Rahvavabariigis. ELKO Group saab tooted kätte oma ladudest Hollandis ja Soomes. Selleks et müüa tooteid EL-i ja mitte-EL-i riikides peab ELKO Group korraldama nende transpordi kohani, kus toimub tollivormistus ja tagama tollivormistuse ning õigeaegse käibemaksu ja võimalike impordimaksude tasumise. Muutused õigusaktides ja määruste tõlgendamises erinevate riigiasutuste poolt vastavates riikides võivad põhjustada viivitusi, sanktsioone ja halvima stsenaariumi korral kauba kinnipidamise. ELKO Group teeb koostööd logistikapartneritega, kellel on ulatuslikud teadmised tollieeskirjade kohta ja seega vähendab igasuguseid impordiga seotud riske. • **Konkurentsiga seotud riskid** Turgusid, kus ELKO Group tegutseb iseloomustavad kiired tehnoloogilised muutused, sagedased uute toodete turule tulemised, arenevad tegevusharu standardid ja klientide muutuvad vajadused. ELKO Group konkurendid on muuhulgas riiklikud, regionaalsed ja rahvusvahelised IT-turustajad. Konkurents IT-toodete turul põhineb tavaliselt müüjate ja toodete rohkusel ja kättesaadavusel, hinnal, võimekusel pakkuda klientide konkreetsetele vajadustele vastavaid tooteid, teenustel, tugiteenustel ja koolitustel, valmisolekul anda krediiti, võimekusel pakkuda müüja nimel logistikateenuseid ja kohaletoimetamise kiirusel. Selleks et olla jätkuvalt konkurentsivõimeline ja kaitsta oma kasumimarginaali peab ELKO Group pakkuma uusi tooteid, mis peavad arengutega sammu ja vastavad klientide nõudmistele õigeaegselt. IT hulgimüügi tegevusharu iseloomustab eriti stagneeruv surve kasumimarginaalile, seda peamiselt tegevusharu kasvava konkurentsi ja tootevaliku muutuste tõttu. Ei saa olla kindel, et ELKO Group suudab neid riske efektiivselt maandada ja ei ole sunnitud vastusena oma konkurentide tegevusele tulevikus hindu alandama ja seega kogema bruto- või netokasumi kahanemist. • **Suhted oluliste müüjatega** ELKO Group on sõltuv järgmistest asjadest: mitmed olulised müüjad ostavad teatud tooteid kindlates kogustes ja täidavad klientide tellimused õigeaegselt. Kui ELKO Group peaks kogema pikaajalist kauba puudujääki või selle kohaletoimetamise viibimist ELKO Group müüjate poolt, siis võib hind, mida nende toodete eest maksta tuleb kasvada või ei pruugi need tooted üldse saadaval olla. Lisaks võib müüja lõpetada ELKO Group õiguse müüa osa või kõiki oma tooteid või muuta müügitingimusi või vähendada või lõpetada stiimulite või programmide pakkumise.

- **Inventari haldamine**

Kuna ELKO Group haldab teatud inventare, et tagada, et klientide tellimuste täitmisaeg on jätkuvalt konkurentsivõimeline, siis võib tekkida varade iganemise risk.
Kui olulised müüjad vähendavad ELKO Group hinnakaitset, siis võib selline muutus põhjustada ELKO Group toodete müügist tuleneva brutomarginaali kahanemise või sundida ELKO Group märkima seda inventari allahindlusena. ELKO Group ohustab inventari risk ka seetõttu, et müüjate kaitse ei kehti kõigile toodetele ega kogustele ja võib olla ajapiirangutega. Lisaks on võimalik, et majanduslanguse ajal langevad toodete ülepakkumise tõttu hinnad ja seetõttu suureneb inventari väärtuse kahanemise risk. Kui ELKO Group ei suuda edukalt varade iganemise riske maandada, võivad kannatada selle äri- ja finantstingimused ning tegevustulemused.

- **Finantsvõimendus**

ELKO Group ärimudel sõltub nende võimekusest turustada suurt hulka tooteid. Selle jaoks on ELKO Group avatud krediidiliin mitmetes pankades Lätis, Rumeenias, Venemaal ja mujal.
Krediidiliinid on tavaliselt tagatud inventari ja laekumistega ning neil on tavaliselt üheaastane tagasimakse tähtaeg. ELKO Group suhted kommertspankadega on olulised edasise arengu jaoks. Iga aasta peab ELKO Group läbirääkimisi krediidiliinide tingimuste üle. Ei ole mingit garantiid, et Emitent saab jätkata pankadelt soodsatel tingimustel laenamist.

- **Valuutakursirisk**

ELKO Group müügitegevus toimub peamiselt kohalike valuutade alusel, kuid selle kohustused on peamiselt valuutas USD. ELKO Group on võtnud kasutusele kõrgetasemelise valuutariski arvutusprotseduuri, peamised riskid on seotud Vene rubla (RUB) ja Rumeenia leuga (RON). Valuutakursiriski hinnatakse igal nädalal ja seejärel tegeletakse selle riski maandamisega.
Riskide katmiseks kasutab ELKO Group loomulikku riskiturvet (nii palju kui võimalik kattuvad võlgnevused inventari ja laekumistega) ning ka valuutariskide maandamist ja valuutavahetamist.

- **Sõltuvus lao- ja logistikapartneritest**

ELKO Group sõltub toodete hoiustamisel ja kohaletoimetamisel peaaegu täielikult kokkulepetest kolmandatest osapooltest lao ja tarne ettevõtetega. Kooskõlas tegevusharu üldiste tavadega on ELKO Group lepingulised kokkulepped selliste kolmandate osapooltega üheaastase kestvusega ja neid uuendatakse korrapäraselt järgnevateks üheaastasteks perioodideks. Kuid ei ole mingit garantiid, et lepingut uuendatakse. Selliste kokkulepete lõpetamine ühe või rohkemate kolmandatest osapooltest lao ja tarne ettevõtetega või ühe või rohkema kolmandast osapoolest lao või tarne ettevõtte suutmatus tooteid kohale toimetada müüjatelt Grupile, hoiustada tooteid või toimetada tooteid kohale Grupilt klientidele võib põhjustada äritegevuse katkestusi ja kahjustada Grupi mainet ja tegevuse tulemusi.

- **Tegevusriskid**

Tegevusrisk tähendab, et võidakse kanda kahjusid, mis tulenevad ebapiisavatest või ebaõnnestunud siseprotsessidest, personali juhtimisest, süsteemidest või välistest asjaoludest.

- **IT-süsteemid**

Ettevõte ELKO Group sõltub oma töö haldamisel teatud olulistest informatsioonisüsteemidest, eelkõige tarkvarast JD Edwards EnterpriseOne ning kohapeal kohandatud või mõnedel juhtudel ka rahvusvaheliselt välja töötatud raamatupidamisplatvormidest. Igasugune rike või märkimisväärne tõrge ELKO Group informatsioonisüsteemides võib takistada ettevõttel klientide tellimuste vastu võtmist ja toodete õigel ajal välja saatmist või optimaalsete inventuuritasemete jälgimist ja säilitamist.

		• **Töötajate haldamisest sõltumine** Tulevikus mõjutab Emitendi tegevusi tema võimekus kvalifitseeritud ja kogenud töötajaid ligi meelitada, hoida ja motiveerida. Lätis (peakontoris) ja teistes riikides on vajaminevate oskuste ja kogemustega töötajate leidmisel võrdlemisi suur konkurents. Emitent on siiani olnud personali haldamises edukas, pakkudes töötajatele hariduse- ja enesetäiendamist, arenguvõimalusi ning erinevaid motivatsiooniprogramme. • **Klientide krediidirisk** ELKO Group klientidele antakse teatud ajaperiood, harilikult 7–90 päeva pärast arve saamist (sõltuvalt kliendi tüübist), mille jooksul arvet maksta. Selle tulemusena võtab ELKO Group riski, et nende kliendid ei maksa ostetud kauba või teenuste eest, või et maksmine viibib. Seda krediidiriski võivad suurendada ELKO Group klientide võimalikud likviidsus- või maksevõime probleemid, mille on põhjustanud näiteks majanduslangus või ebasoodsad muudatused nende äritegevuses. ELKO Group annab krediiti ettevõttesisese krediidipoliitika põhjal, mis töötatakse välja keskselt, kuid muudetakse vastavalt igale konkreetsele piirkonnale, analüüsides põhjalikult ettevõtte kliente ning püüdes krediidiriski varieerida ja piirata. Lisaks kasutab ELKO Group krediidiriski leevendamiseks muid vahendeid, alates maksetega hilinenud klientide saadetiste blokeerimisest ja keerulistest häiresüsteemidest, mis teavitavad muudatustest klientide maksmis- ja ostmisharjumustes, kuni erinevate tagatisteni, sealhulgas limiitide krediidikindlustus.
D.3	Põhiteave peamiste väärtpaberitega seotud spetsiifiliste riskide kohta	• **Sobilik investeerimisrisk** Iga Võlakirja potentsiaalne investor peab enda olukorda arvestades otsustama, kas see investeering on sobilik. • **Võlakirjade tagasimaksmise risk** Võlakirjad on võrdväärsed muude Emitendi tagatisteta laenudega. Emitendi maksujõuetuse korral on vastavalt asjakohastele seadustele Võlakirjade omanikel samaväärne õigus oma investeeringut saada kui teistel asjassepuutuva grupi võlausaldajatel. Puuduvad lepingud või muud tehingudokumendid, mille kohaselt oleksid võlausaldajate nõuded allutatud teistele Emitendi tagatisteta kohustustele. Emitendil ei ole keelatud teiste võlausaldajate kasuks vara pantida. • **Likviidsusrisk** Ehkki Baltic Bond Listi plaanitakse hõlmata Võlakirju, ei taga ei Emitent ega mõni teine isik Võlakirjade minimaalset likviidsust. Võlakirjaomanikud peaksid arvestama, et Võlakirju võib olla järelturul keeruline müüa. • **Hinnarisk** Võlakirjad ostetakse välja nende nominaalväärtuses, kuid nende hind võib järelturul märkimisväärselt muutuda. Emitent ega mõni teine isik ei ole kohustatud säilitatud Võlakirjadel teatud hinnataset. • **Maksurisk** Maksuresidentide ja isikute, kes ei ole Läti kodanikud, ning teiste riikide kodanike maksumäärad ja maksude maksmise protseduurid, mis võlakirjade ostmise hetkel kehtivad, võivad muutuda. Emitent ei kompenseeri Võlakirjaomanikele maksutõuse, seega võivad Võlakirjaomanikud Võlakirjadega võrreldes väiksemaid makseid saada.

E jagu – Pakkumine

Element ja avalikustamisnõuded		Informatsioon
E.2b	Pakkumise põhjused ja tulu kasutamine, kui need erinevad kasu teenimisest ja/või teatud riskide vastu kindlustamisest	Rahalisi vahendeid, mis saadakse „Võlakirjade väljastamise programmist“, kasutatakse: • Emitendi tavapärase majandustegevuse raames. Võlakirjadest saadud rahalisi vahendeid kasutatakse peamiselt müüjatelt toodete ostmiseks ja nende krediidi peale müümiseks Emitendi klientidele; • osade investeeringute rahastamiseks; • potentsiaalsete ühinemiste ja ülevõtmiste tehingute rahastamiseks.
E.3	Pakkumise tingimuste kirjeldus	Tingimusi täpsustatakse vastava Võlakirjade Seeria Lõplikes Tingimustes.
E.4	Mistahes huvi kirjeldus, mis on väljastamise/pakkumise jaoks olulise tähtsusega, sealhulgas vastandlikud huvid	Baltikums Bank AS (väljastav agent) organiseerib Võlakirjade väljastamist ning sellel võib olla Emitendiga muid äritehinguid.
E.7	Emitendi või pakkuja esitatavad hinnangulised kulutused investorile	Kõiki Võlakirjade ostmise ja valdamisega seotud kulutusi kannab investor kooskõlas selle krediidiasutuse või investeerimisteenuse osutaja hinnakirjaga, millelt investor Võlakirju ostab. Emitent ei ole kohustatud investori kantavaid kulutusi kompenseerima. Sõltuvalt investori elukohariigist võivad investorile kohalduda täiendavad maksude tasumise kohustused. Kooskõlas Läti Vabariigi kohaldatavate seadustega arvestab Emitent intressimaksetelt makse maha.

4. Risk factors

4.1. Important notice

An investment in the Notes involves a high degree of risk. Potential Investors should carefully consider the risks described below and the other information contained in this Base Prospectus before making a decision to invest in the Notes. Any of the following risks, individually or together, could adversely affect the Issuer's business, results of operations, financial condition and prospects and, thereby, may reduce the Issuer's ability to fulfil its obligations under the Notes and cause its insolvency in the worst-case scenario, as well as reduce market price and value of the Notes. Potential Investors should be aware that the value of the Notes and any income from them may decrease and that Potential Investors may not be able to realise their initial investment.

Issuer has described the risks and uncertainties that the Issuer's management believes are material, but these risks and uncertainties may not be the only ones Issuer faces. Additional risks and uncertainties, of which the Issuer's management is currently not aware or which the Issuer's management currently deems immaterial, may also have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects.

The below description of the risk factors does not reflect the probability of the respective risk's realisation or their order of importance. Most of these risk factors are contingencies, which may or may not occur and the Issuer is not in a position to asses or express a view on the likelihood of any such contingency occurring.

All Potential Investors should make their own evaluations of the risks associated with an investment in the Notes and should consult with their own professional advisers if they consider it necessary.

4.2. Macroeconomics

ELKO Group is engaged in distribution of IT hardware, software and consumer electronics with direct presence in ten countries. ELKO Group distinguishes three primary markets – the Baltic's (Estonia, Latvia, Lithuania), the CIS (Russia, Ukraine, Kazakhstan) and the CEE (Romania, Slovakia, Czech Republic and Slovenia) and other countries which are mainly located in Balkan region.

Most of the revenue (61.1% in 2015) was generated in the CIS market, which has been experiencing downturn since 2014 due to political and economic factors. Unaudited results for 1st quarter of 2016 shows that proportion of ELKO Group revenue in CIS market has decreased to 49.9%. Given strong dependence on oil and gas sector and drop in commodity prices, which lead to devaluation of national currencies, Russia and Kazakhstan market may continue to exhibit downward pressure on imports in the near future. Ukraine's economy posted drop of real GDP by 9.9% in 2015 and the outlook remains bleak.

Some of the countries, which constitute CEE market, are member states of the EU and posted GDP growth of 2.9 – 4.2% in 2015. Other countries (mostly in Balkan region) which are serviced without direct presence experience similar economic patters. Importance of this region for ELKO Group in terms of share of consolidated revenues grew from 13% in 2013 to 35.5% in the 2015 and 47.1% as of 30 June 2016. The CEE market is sufficiently large to continue to play an important role for ELKO Group.

The Baltic's region is the smallest one in terms of number of inhabitants and constitutes only 8.4% of total revenues in 2015 and 9.1% as of 30 June 2016. The economies of Estonia, Latvian and Lithuania in 2015 grew at a rate of 1.1%, 2.7% and 1.6%, respectively. All of these countries are a part of the Eurozone, which excludes any currency risk for ELKO Group operations.

Profitability of the Issuer depends on the further growth of each of the countries where ELKO Group distributes products.

4.3. Changes in customs regulations

Substantial share of the IT and consumer electronics products are manufactured in the People's Republic of China. ELKO Group receives the goods in its warehouses in the Netherlands and Finland. In order to distribute the products in the EU and non-EU countries ELKO Group has to arrange transportation to and customs clearance as well as ensure timely payment of VAT and import duties if any.

The change in legal acts and interpretation of regulations by various state agencies in the respective countries may cause delay, penalties and in the worst-case scenario arrest of cargo. ELKO Group cooperates with logistics partners that have extensive knowledge of customs regulations thus diminishing any risk associated with imports.

4.4. Competition risk

The markets in which ELKO Group operates are characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing needs of customers. ELKO Group's competitors include national, regional and international IT distributors. Competition in the market for the distribution of IT products is generally based on vendor and product selection and availability, price, ability to tailor solutions to specific customer needs, service, support and training, willingness to provide credit, ability to provide logistics services on behalf of the vendor and speed of delivery. Product lifecycles are generally short and the pace of technological development is rapid.

To remain competitive and to protect profit margins, ELKO Group must offer new products that keep pace with such developments and must respond to customer requirements on a timely basis. New technologies, changing commercial circumstances (for example, consolidation within a relevant sector), existing competitors (including those with a longer operating history, greater resources and/or broader range of products) and new entrants to the markets in which ELKO Group currently operates or markets in which ELKO Group might target for expansion, may adversely affect the Group's business, financial condition, results of operations or prospects. Competition may also come from ELKO Group's vendors, who may directly sell to its end-customers.

In particular, the IT wholesale distribution industry is characterized by stagnating or downward pressure on gross margins primarily as a result of increasing competition within the industry and changes in product mix. There can be no assurance that ELKO Group will manage to mitigate this risk effectively and will not be forced to reduce prices in the future in response to the actions of its competitors and thereby experience decreases in its gross or net margins.

4.5. Relations with key vendors

ELKO Group depends on a number of key vendors to purchase particular products in the required quantities and to fulfil customer orders on a timely basis. Should ELKO Group experience any prolonged shortages or delays in deliveries by ELKO Group's vendors, the price it pays for those products may increase or the products may not be available at all. Further, a vendor may terminate the Group's right to sell some or all of its products or change the terms and conditions of the vendor relationship or reduce or discontinue the incentives or programs offered. Consistent with standard industry practice, contracts with ELKO Group's vendors are for one-year durations, which are then regularly renewed for subsequent one-year periods. However, there is no guarantee that the contract will be renewed or that the contract will be renewed on existing business conditions (including, but not limited to: stock protection, stock rotation, RMA conditions, rebates, pricing strategy, etc.). Accordingly, if ELKO Group is not able to purchase an adequate supply of products to fulfil the orders of its customers on a timely basis or if there were significant changes in the terms and conditions pursuant to which ELKO Group purchases its products, ELKO Group's business, financial condition, results of operations and cash flows may be adversely affected.

In 2015, products purchased from Lenovo, Apple, Intel, Acer and Seagate, the Group's five largest vendors, accounted for approximately 44.1%, 8.8%, 8.2%, 5.4% and 4.7%, respectively, of ELKO Group's total revenue. The loss of any of these vendors or a combination of other key vendors, and ELKO Group's inability to find adequate replacement products or services on a timely basis, or at all, on commercially acceptable terms, could have a material adverse effect on its business, financial condition and results of operations.

4.6. Inventory management

Because ELKO Group maintains certain inventories in order to ensure that the lead times to customers remain competitive, it is subject to the risk of inventory obsolescence.

ELKO Group's inventory levels were USD 210 million at the end of 2013, USD 238 million at the end of 2014, USD 222 million at the end of 2015 and USD 244 million as of 30 June 2016.

It is the policy of many vendors of IT products to offer distributors limited protection from the loss in value of inventory due to technological change or such vendors' price reductions. For example, ELKO Group can receive a credit from certain vendors for products, based upon the terms and conditions contained in agreements with those vendors, in the event of a vendor price reduction. In addition, ELKO Group has a right to return to a limited number of vendors a certain percentage of purchases. These policies are often not embodied in written agreements and are subject to the discretion of the vendors. As a result, they do not protect ELKO Group in all cases from declines in inventory value. ELKO Group offers no assurance that the price protection offered by some of its vendors will continue or that it will successfully manage existing and future inventories. If major vendors decrease the availability of price protection to ELKO Group, such a change in policy could lower ELKO Group's gross margin on products it sells or cause it to record inventory write-downs. ELKO Group is also exposed to inventory risk to the extent that vendor protections are not available on all products or quantities and are subject to time restrictions. In addition, during an economic downturn, it is possible that prices will decline due to an oversupply of product, and therefore there may be greater risk of declines in inventory value. If ELKO Group fails to successfully manage inventory obsolescence risks, its business, financial condition and results of operations may suffer.

4.7. Financial leverage

ELKO Group's business model depends on the ability to distribute large quantities of products. In order to achieve this ELKO Group utilizes credit lines of several banks in Latvia, Romania, Russia and elsewhere. ELKO Group's borrowing were USD 114 million at the end of 2013, USD 75 million at the end of 2014, USD 86 million at the end of 2015 and USD 67 million as of 30 June 2016.

Credit lines are normally secured with inventory and accounts receivables with typical maturity of one year. ELKO Group's relations with commercial banks are important for future development. Each year ELKO Group negotiates the terms of the respective credit lines. There is no assurance that the Issuer is able to continue borrowing from the banks on favourable conditions.

4.8. Foreign exchange risk

ELKO Group mostly trades in local currencies, while its liabilities are mostly in USD (61% of borrowing at the end of 2015 were in USD). ELKO Group has implemented sophisticated currency risk calculation procedure, with main risks associated with Russian Rouble (RUB), Romanian Leu (RON) and Ukrainian hryvnia (UAH). Currently currency risk is assessed on weekly basis and subsequently actions are taken to mitigate indicated risk. ELKO Group has started a project to enable risk assessment to be done on daily basis.

To cover currency risks ELKO Group uses natural hedges (to possible extent – accounts payable matching with inventory and accounts receivable as well as bank financing in respective currencies), as well as currency hedging and swapping.

As at 31 December 2014 and 2015, borrowings in RUB constituted 22% and 16%, respectively, in RON the share was 7% and 8% and borrowings in UAH constituted 5% in 2015.

4.9. Dependence on warehouse and logistics partners

ELKO Group relies almost entirely on arrangements with third-party warehouse and shipping companies for the storage and delivery of its products. Consistent with industry practice, ELKO Group's contractual arrangements with such third-party providers are for one-year durations, which are then regularly renewed for subsequent one-year periods. However, there is no guarantee that the contract will be renewed. The termination of these arrangements with one or more of such third-party warehouse and shipping companies, or the failure or inability of one or more of these third-party warehouse and shipping companies to deliver products from vendors to the Group, store the products or deliver products from the Group to its customers could cause a disruption in its business operations and harm its reputation and results of operations.

4.10. Dependence on managing employees

In the future, the Issuer's activities will be affected by its ability to attract, preserve, and motivate highly qualified and experienced personnel. There is competition for personnel with the relevant skills and experience in Latvia (main office) and in other countries, and it is comparatively high; however, the Issuer has successful experience in the field of personnel management, offering education, professional growth, and development possibilities, as well as different motivation programs to the employees.

At the end of March 2016, ELKO Group's total number of employees was 738 persons. Most of employees are located in Russia (274), Latvia (215), Ukraine (88) and Romania (62).

4.11. Operational risks

Operational risk is a possibility of experiencing losses due to insufficient or unsuccessful inner processes, personnel management, systems, or external circumstances. As at 31 March 2016, the number of Issuer's employees reached 738 persons; therefore, thorough personnel selection is carried out, accurate descriptions of job duties are compiled, division of duties is coordinated, constant investments are made within the IT system, which allows the Issuer to reduce operational risks.

4.12.IT systems

ELKO Group depends on certain key information systems to manage its operations, in particular JD Edwards Enterprise One for inventory control and locally adapted and, in some cases, internally developed accounting platforms for sales. Any failure or significant disruption in ELKO Group's information systems could prevent it from taking customer orders or shipping products in a timely manner or prevent it from monitoring and maintaining optimum inventory levels. In addition, any such failure or disruption could undermine customer confidence in the reliability of ELKO Group's services and place it at a competitive disadvantage. Accordingly, such failures and disruptions in ELKO Group's key information systems may cause revenue to decrease and operating expenses to increase, which could have a material adverse effect on ELKO Group's business, financial condition and results of operations.

4.13.Credit risk of clients

ELKO Group's customers have a period of time, generally 7 to 90 days after the date of invoice, depending on the type of customer, in which to effect payment. As a result, ELKO Group is subject to the risk that its customers will not pay or will delay the payment for the products and services they purchased. This credit exposure risk may increase due to liquidity or solvency issues experienced by ELKO Group's customers, for example, as a result of an economic downturn or an adverse change in their business. ELKO Group assigns credit to customers according to internal credit policy, which is centrally developed yet tailored for each specific region, applying thorough internal analysis of ELKO Group's customers and seeking to diversify and limit its credit risk exposure. Credit policy is developed and implemented by credit control unit that employs professionals with extensive experience in the field. Credit control team caries relevant and high quality risk assessment on each credit limits well as follows strict procedures and regular follow-up on already assigned limits. If ELKO Group is unable to collect payment for amounts invoiced from its customers or from its credit insurance, it could have a material adverse effect on its business, financial condition and results of operations. Since September 2013, ELKO Group cooperates with Atradius for insuring Elko Grupa, Elko Mobile, Elko Trading Switzerland and Elkotech Romania debtors.

Furthermore, ELKO Group uses other tools to mitigate credit risk starting from blocking all shipments to any customer with delay, continuing with sophisticated alert system that signalizes about changes in customers payment and buying habits, and ending with different kinds of collaterals for limits.

As of 31 December 2015, levels of insured accounts receivable of Elko Grupa, Elko Mobile (debtors in CEE region) and Elkotech Romania were 62%, 73% (from CEE region insured of 93% of accounts receivable) and 57%, respectively.

Quality of ELKO Group's internally developed credit scoring can be described as high as the share of not overdue net trade receivables for the past four years has been almost unchanged at the level of 96-98%.

ELKO Group's trade and other receivables were USD 148 million at the end of 2013, USD 112 million at the end of 2014, USD 117 million at the end of 2015 and USD 85 million as of 30 June 2016.

4.14.Risks related to Notes

4.14.1. Suitable investment risk

Each Potential Investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each Potential Investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

4.14.2. Notes repayment risk

Notes are equivalent to other unsecured borrowings of the Issuer and the third parties have not guaranteed Notes and interest payments. In case of Issuer's insolvency, Noteholders have the same right to receive their investment as other creditors of the relevant group in accordance with applicable regulatory enactments. There are no contracts or other transaction documents, which would subordinate the claims of Noteholders to other unsecured obligations of the Issuer. The Issuer is not prohibited from pledging assets in favour of other creditors.

4.14.3. Liquidity risk

Despite that, Notes are planned to be included in the Baltic Bond List, neither the Issuer, nor any other person guarantees the minimum liquidity of Notes. Noteholders should take into account that there may be difficulties in selling Notes in the secondary market.

4.14.4. Price risk

Notes will be repaid for their Nominal Value, yet the price in the secondary market may change significantly. Neither the Issuer, nor any other person undertakes to maintain a certain price level of Notes.

4.14.5. Tax risk

Tax rates and tax payment procedure applicable at the moment of purchase of Notes to the tax residents, non-residents of Latvia, and residents of other countries may change. The Issuer will not compensate for the increase in taxes to Noteholders; therefore, Noteholders may receive smaller payments related to Notes.

5. Party responsible for the Base Prospectus

5.1. Party Responsible for the Base Prospectus

Akciju sabiedrība "ELKO GRUPA"

Registration number: 40003129564

Legal address: Toma iela 4, Riga, LV-1003, Latvia

5.2. Assurance of the information given in the Base Prospectus

The Issuer and its management board are responsible for the information contained in this Base Prospectus.

Hereby we, Members of the Board of AS ELKO Grupa, Māris Būmanis and Mārtiņš Ozoliņš, having taken all reasonable care to ensure that such is the case, confirm that the information contained in the Base Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Member of the Board (CFO)

Māris Būmanis

Member of the Board (Distribution Director)

Mārtiņš Ozoliņš

6. Key Information

6.1. Authorization of the shareholders meeting of the Issuer

On 16 September 2016, the Issuer's shareholders passed the decision (Protocol No. LEG_2016_4_003) to issue debt securities in the amount of up to and including EUR 50,000,000 (or its equivalent in USD) and authorized the Management Board of the Issuer to approve the Base Prospectus, the Final Terms of the respective Series of Notes, as well as any amendments thereof.

6.2. Authorization of the management board of the Issuer

On 11 October 2016, the Issuer's Management Board passed the decision (Protocol No. LEG_2016_6_037) to approve the Base Prospectus, in line with representation rights mentioned in clause 8.2. of the Issuer`s charter.

6.3. Representations

To the Issuer's management's best knowledge, at the moment of signing the Base Prospectus:

- The Issuer's management board is authorized to sign and execute the obligations arising from the Base Prospectus;
- The Issuer and/or the Group companies are not under insolvency proceedings;
- There are no government interventions, lawsuits or arbitrage processes, which could affect or have affected substantially financial situation of the Issuer;
- The Issuer has not submitted an application for liquidation in the relevant state authorities in RoL;
- The Issuer has not violated any covenants as per clause 8.19 of the Base Prospectus;
- The Base Prospectus does not violate any agreements;
- The Base Prospectus does not violate the Issuer's Articles of Association.

6.4. Arranger of the Programme

The Issuer has appointed Baltikums Bank AS (registration number: 40003551060, legal address: Smilšu iela 6, Riga, LV-1050, Latvia) as the arranger of the programme and as the Issuing Agent.

6.5. Interest of natural and legal persons involved in the issue/offer

Baltikums Bank AS as an arranger of the Programme and the Issuing Agent may have other business transactions with the Issuer.

6.6. Issuing Agent's right to invest

Baltikums Bank AS as an Issuing Agent has a right to invest in the Notes.

6.7. Use of proceeds

Funds that will be raised as a result of the Programme for the issuance of Notes issue will be used:

- in the ordinary course of business of the Issuer. The funds received from the Notes will be mostly used to purchasing products from vendors and selling them on credit to the Issuer's clients.
- for financing part of the capital expenditure.
- for financing of potential M&A transactions.

7. Other information

7.1. Figures presented in the Base Prospectus

The figures set out in the financial statements and other figures presented in the Base Prospectus have mainly been rounded off. As a result, the sum of individual figures set out in the tables contained in this Base Prospectus may not always correspond accurately to the sums presented in these tables.

7.2. Forward-looking statements

Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on the Issuer's management current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue" and similar expressions identify forward-looking statements.

The risk factors described in the Base Prospectus do not necessarily include all risks and new risks may incur. If one or more of the risk factors described in this Base Prospectus or any other risk factors or uncertainties would materialise or any of the assumptions made would turn out to be erroneous, ELKO Group's actual business result and/or financial position may differ materially from that anticipated, believed, estimated or expected. It is not ELKO Group's intention, and it will not accept responsibility for updating any forward-looking statements contained in this Base Prospectus, unless required by applicable legislation.

7.3. Availability of the Base Prospectus, Final Terms and other documents

All interested parties have the possibility to be acquainted with the Base Prospectus, its Annexes and any Final Terms. Documents will be published by the Issuer on Nasdaq Riga website www.nasdaqbaltic.com as stipulated by legal acts of RoL and the regulations of Nasdaq Riga. The Base Prospectus, its Annexes and any Final Terms are available upon request to the Issuer's email address: info@elkogroup.com.

7.4. Restrictions on distribution of the Base Prospectus and the Final Terms

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain countries is restricted or prohibited by law. Any person residing outside the RoL and the Republic of Estonia may receive this Base Prospectus only within the limits of applicable special provisions or restrictions. This Base Prospectus is published in the RoL for residents of the RoL. Investors outside of the RoL are subject to securities and tax regulations within their applicable jurisdictions that are not addressed in the Base Prospectus. Any Potential Investor should satisfy himself that an investment in the Notes mentioned in this Base Prospectus permissible under the rules and regulations of his or her domicile. The Base Prospectus is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of the Base Prospectus is prohibited. Neither this Base Prospectus nor any Final Terms constitute an offer to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The Issuer or its representatives do not accept any legal responsibility for any such violations, whether or not a Potential Investor of the Notes is aware of such restrictions.

The issue of the Notes shall be governed by the laws of the RoL. No action has been taken by the Issuer in any jurisdiction that would permit offering of the Notes other than in the RoL and the Republic of Estonia. Unless specifically otherwise stated in this Base Prospectus, the Notes may not be, directly or indirectly, offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws. The Issuer and the Issuing Agent do not have any legal responsibility whatsoever for such violations whether or not such restrictions were known to Potential Investors. The Issuer and the Issuing Agent reserves the right to, respectively, at its sole discretion reject subscription to the Notes, which the Issuer and the Issuing Agent believes would cause the violation or breach of any law, rule or regulation for the time being in force.

7.5. Governing law

The Base Prospectus and any Final Terms, as well as the issuance and/or offering of Notes in question at the time shall be governed by and construed in accordance with the laws of the RoL. Any disputes relating to or arising from the above-mentioned will be settled solely by the courts of the RoL of competent jurisdiction.

7.6. Third party information and statement by experts and declarations of any interest

The Base Prospectus does not contain any expert statements or reports.

During the preparation of the Base Prospectus, information provided on the websites of Directorate-General of the European Commission (Eurostat) and the National Bank of Ukraine. This information has been accurately reproduced and as far as the Issuer is aware and was able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

7.7. Legal proceedings and arbitrage

At the moment of signing the Base Prospectus, there are no government interventions, lawsuits or arbitrage processes, which could affect or have affected substantially financial situation of the Issuer.

The Issuer is involved in a number of cases as a plaintiff against some clients that have not paid invoices for delivered products.

7.8. Substantial changes in financial situation of the Issuer

The last published financial data are audited consolidated financial statement of the Issuer as of 31 December 2015.

On 12 July 2016 current bondholders of the Issuer's bond with ISIN code LV0000801892 voted and agreed to the proposed waiver by permitting dividend pay-out to equity holders of the parent company in amount of EUR 5.5 million or approximately 50% of the profit attributable to the equity holders of the parent company.

There has been no other material adverse change in the financial position or prospects of the Issuer since date of the audited consolidated annual report for 2015.

7.9. Substantial changes in financial or trading position

There has been no material adverse change in the Issuer's financial or trading position since 30 June 2016.

7.10. Business with related parties

The Issuer has no knowledge of any important agreements that could have been concluded between the Issuer and any related company and that could affect the Issuer's capability to fulfil its liabilities due to investors regarding the securities to be issued.

8. General Terms and Conditions of the Notes

The terms and conditions of each Series of Notes shall consist of these General Terms and Conditions and the Final Terms. The General Terms and Conditions shall apply for each Series of Notes.

8.1. Nominal Value and issuance of the Notes

The Issuer may issue the Notes up to an aggregate Nominal Value of EUR 50,000,000 (fifty million euro) or its equivalent in USD.

The aggregate Nominal Value of a Series of Notes and the Nominal Value of each Note shall be specified in the Final Terms of a Series of Notes.

The Notes will be offered for subscription for a minimum investment amount, which will be specified in the Final Terms of the respective Series of Notes.

8.2. Type and class of the Notes

The Notes are freely transferable securities in bearer form which are disposable without any restrictions. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under RoL laws.

Any person or entity that holds the Notes in his securities account has the right to receive the interest and Nominal Value payments, as well as exercise other rights fixed in the terms and RoL legislation.

The Notes are issued in dematerialized form and appear as a book entry in the LCD, which will provide the accounting function for the Notes.

8.3. ISIN code of the Notes

Before commencement of the offering of the respective Series of Notes, the LCD (AS “Latvijas Centrālais depozitārijs”, registration number: 40003242879, legal address Vaļņu street 1, Riga, LV-1050, Latvia) upon request of the Issuer will assign to the respective Series of Notes an ISIN code. For each Series of Notes there will be a separate ISIN code, which will be different from the ISIN code of the respective other Series of Notes. In order to identify each new Series of Notes, the Final Terms shall also stipulate the serial number of the respective Series of Notes.

8.4. Applicable law

The Notes issue is arranged in compliance with the Financial Instrument Market Law and other legal acts of RoL that are in force including the Latvian Financial and Capital Market Commission, the LCD and the Nasdaq Riga regulations.

All disputes between Noteholders and the Issuer shall be settled in courts of the RoL in accordance to the legal acts in force. The Base Prospectus and the Final Terms of each Series of Notes are/will be drafted and signed in English and any translations of the Base Prospectus and the Final Terms of each Series of Notes into another language are unofficial and made exceptionally for the investors’ convenience. In case of any disputes’ settlement, interpretation of the norms of the Base Prospectus and the Final Terms of each Series of Notes in English holds the priority against an interpretation in any other language.

8.5. Currency of the Notes

The Notes will be issued in EUR or USD. The currency of each Series of Notes shall be specified in the Final Terms.

8.6. Ranking of the Notes

The Notes rank *pari passu* with other unsecured liabilities of the Issuer. In case of the insolvency of the Issuer, the Noteholders will be entitled to recover their investment on the same terms as other creditors in the respective claims’ group according to the relevant legal acts. There are no contracts or other transaction documents that would subordinate the claims of the Noteholders to other unsecured liabilities of the Issuer.

8.7. Issue Price

The Notes may be issued at their Nominal Value or at a discount or a premium to their Nominal Value.

The Issue Price of each Series of Notes shall be specified in the Final Terms of respective Series of Notes.

8.8. Underwriting

Successful placement of each Series of Notes is not guaranteed by the Issuing Agent or by any third party.

8.9. Issue Date

The Issue Date of each Series of Notes shall be specified in the Final Terms of respective Series of Notes.

The First Settlement Date of each Series of Notes shall be specified in the Final Terms of respective Series of Notes.

8.10. Interest payments

Annual Interest Rate can be fixed, floating or Notes can be discounted (without interest payments). Type of interest rate, Annual Interest Rate and Interest Payment Dates will be specified in the Final Terms of the relevant Series of Notes.

Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the Nominal Value of Notes outstanding from time to time. The first interest period commences on the Issue Date and ends on the first Interest Payment Date. Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment date. The last interest period ends on the Maturity Date.

Interest calculation date is the 5th (fifth) Business Day before Interest Payment Date. The interest calculation date will be recorded in the Noteholder list, who will be eligible for the interest payments.

The Issuer pays the interest through the LCD and in accordance with applicable LCD regulations, which regulate the procedure for paying income from debt securities. LCD regulations applicable on the day of preparation of the Terms of the Issue are LCD regulations No. 8 “On Payment of Dividends, Coupons, Principal and other Cash Proceeds”.

The Issuer will transfer all payable amounts to the LCD account on the Interest Payment Date. The LCD shall transfer all payable amounts received from the Issuer to the credit institutions and investment brokerage firms or other financial intermediaries from which the Noteholders receive investment services within 1 (one) Business Day. The credit institutions and investment brokerage firms or other financial intermediaries from which the Noteholders receive investment services shall transfer the amounts payable to the Noteholders or the nominee holders, which will further transfer the respective amounts to the Noteholders.

If the Interest Payment Day is a holiday, the Issuer makes the relevant interest payment on the first Business Day after the holiday. However, if the closest Business Day after the holiday occurs in the next month, the Interest Payment Date is the Business Day preceding the holiday.

Type of Notes (notes with fixed interest rate, floating interest rate or discounted Notes) wwill be specified in the Final Terms of the relevant Series of Notes.

- Notes with fixed interest rate

Interest shall be calculated on the basis of a 360-day year comprised of twelve months of 30 days each and, in case of an incomplete month, the actual number of days elapsed (30E/360 day count convention).

If the interest rate is fixed, the interest payment is determined according to the following formula:

CPN = F x C / N, where

CPN – value of an interest payment in EUR or USD;

F – Nominal Value;

C – Annual Interest Rate;

N – Number of interest payment periods during one year.

- Notes with floating interest rate

If interest rate for Notes is floating, the Final Terms of the relevant Series of Notes will contain the floating money market index (base rate) used in the calculation of floating interest rate.

In case of floating interest rate, interest shall be calculated on the basis of the actual number of days in the period over 360 (ACT/360 day count convention).

If the Interest rate is floating, the interest payment is determined according to the following formula:

CPN = F x ((C+X) / N), where

CPN – value of an interest payment in EUR or USD;

F – Nominal Value;

C – Margin over Money Market index;

X – Floating Money Market index

N – Number of interest payment periods during one year.

In case of floating interest rate, the Issuer will determine the respective Money Market index that is officially set on the date which is the 5th Business day before the new interest period and will publish it immediately thereafter. The Issuer may appoint the calculation agent, which will determine the appropriate Money Market index.

- Discounted Notes

Discounted Notes do not carry any Annual Interest Rate.

8.11. Accrued interest calculation

Accrued interest between Interest Payment Dates shall be calculated as follows:

AI = CPN / (360 x D), where

AI – accrued interest;

CPN – value of an interest payment in EUR or USD;

D – the amount of days from the beginning of the interest accrual period using according day count convention (see clause 8.10. of the Base Prospectus).

8.12. Yield

For floating rate Notes the yield on Notes depends on changes in base interest rate on the interbank market. For discounted and fixed-rate Notes the yield depends on purchase price.

8.13. Discounted Note price calculation

If Note is discounted, the price for such Note is calculated using the following formula:

$P = \frac{F}{\left(1+\frac{Y}{N}\right)^{\frac{\frac{D1}{D2}}{N}}}$, where

P – Price of Note;

F – Nominal Value;

Y – annual yield;

N – Number of interest payment periods during one year.

D1 – the amount of days from the beginning of the interest accrual period

D2 – the amount of days in a year

ACT/360 day count conversion should be used in calculation for discounted Notes.

8.14. Maturity and Nominal Value payment

The Notes may be repaid in full at their Nominal Value at the Maturity Date or paid in instalments according to the repayment schedule fully or partially at the Maturity Date. Maturity Date and repayment procedure will be specified in the Final Terms of the relevant Series of Notes.

Each Series of Notes may have a maturity between 1 (one) to 10 (ten) years. Maturity Date will be specified in the Final Terms of the relevant Series of Notes.

The Issuer will pay the Nominal Value of the Notes on the Notes Maturity Date or transfer instalments according to the repayment schedule through the intermediary of LCD in accordance with LCD intermediary and applicable LCD regulations. LCD regulations applicable on the day of preparation of the Base Prospectus are LCD regulations No. 8 “On Payment of Dividends, Coupons, Principal and other Cash

Proceeds".

The Nominal Value calculation date is at the end of the previous Business Day before Nominal Value payment.

The Issuer will transfer all payable amounts to the LCD account on the Maturity Date or in instalments according to the repayment schedule fully or partially at the Maturity Date. The LCD shall transfer all payable amounts received from the Issuer to the credit institutions and investment brokerage firms or other financial intermediaries from which the Noteholders receive investment services within 1 (one) Business Day. The credit institutions and investment brokerage firms or other financial intermediaries from which the Noteholders receive investment services shall transfer the amounts payable to the Noteholders or the nominee holders, which will further transfer the respective amounts to the Noteholders.

If the Notes repayment date is a holiday, the Issuer will repay Nominal Value of the Notes on the first Business Day after the holiday observing the terms stated in this clause. However, if the nearest Business Day after the holiday falls in the next month, the Nominal Value of the Notes is to be repaid on the Business Day preceding the holiday.

8.15. Early redemption

The Issuer may have a right to redeem the Notes prior to the Maturity Date (call option), and Noteholders may have a right to demand early redemption of Notes (put option). Call and/or put options, dates and early redemption process will be specified in the Final Terms of the relevant Series of Notes.

8.16. Purchases

The Issuer or any of its Subsidiaries may at any time purchase the Notes in any manner and at any price in the secondary market.

If the Issuer or any of its Subsidiaries purchase the Notes on the secondary market and take the decision on deletion of the Notes, the Issuer at the latest 5 (five) Business days prior to the date of deletion of the Notes informs the Noteholders by the corresponding announcement in the information system of the Nasdaq Riga and The Central Storage of Regulated Information (ORICGS), indicating the date of deletion and the number of the Notes.

8.17. Taxation

All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, unless the withholding or deduction of the taxes is required by laws of the RoL. In such case, the Issuer shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities in accordance with the applicable laws for the amount so required to be withheld or deducted. The Issuer will not be obligated to make any additional compensation to the Noteholders in respect of such withholding or deduction.

Detailed overview of taxation issues is available in the section 10. of the Base Prospectus.

8.18. Event of default

If the event of default occurs, a Noteholder has the right to demand repayment of the Nominal Value and the accrued interest from the Issuer. The Issuer undertakes within 5 (five) Business Days to offer the Noteholder to redeem the Notes at the Nominal Value plus all accrued interest.

Each of the following events shall constitute an event of default:

- the Issuer has not paid the interest in full amount for more than 5 Business Days;
- the Issuer has not paid the Nominal Value in full amount for more than 5 Business Days;
- the Issuer or any of its subsidiaries have failed to perform other liabilities in the amount of over EUR 100,000 for more than 5 (five) Business Days except for duly disputed payment obligations;
- the Issuer is in breach of one or several covenants as defined in clause 8.19. of the Base Prospectus.

In the case of non-compliance or inadequate compliance with a payment obligation arising from the Notes, the Noteholder in question shall be entitled to require and the Issuer shall be obliged to pay late payment interest which shall accrue on the outstanding amount as of the day following the due date for payment until the day of discharge of the payment obligation at the rate of 0.05% (zero point zero five percent) per day.

8.19.Covenants

As long as the Notes issue is outstanding, the Issuer has to ensure that its operations do not breach any of the following:

- The Issuer and its subsidiaries shall continue business operations in the field of distribution of IT hardware, software and consumer electronics;
- The Issuer for financial statement audit shall retain one of the following auditors: KPMG, EY, Deloitte or PriceWaterhouseCoopers.
- The Issuer and its subsidiaries may not lend to the shareholders (in the form of loans or otherwise) of the ELKO Group, as well as any borrowings from the Issuer's shareholders shall be unsecured and without any guarantees by the ELKO Group, interest and Nominal Value repayment shall be after the Notes maturity date;
- Any transactions with related persons shall be at market prices;
- In case of investment larger than 5 million EUR the Issuer or its subsidiaries may invest in share capital of other companies only if the participation share is at least 51% and the Issuer or its subsidiaries retains full control of a company;
- Ratio of Total borrowings to Earnings before interest payments and taxes (EBIT) shall not be higher than 5 to 1;
- Dividend payout shall not be limited by ratio or total amount unless financial covenants are in breach or dividend payout would lead to such breach;
- Ratio of Total equity to (Total borrowings plus Total equity minus Cash) shall be defined in the Final Terms of the relevant Series of Notes.

Financial ratios above are calculated based on the Issuer's consolidated financial statements.

Final Terms of the relevant Series of Notes may include other covenants, which are not detrimental to the above covenants.

8.20. Admission to trading

The market organizer for the Notes is the Nasdaq Riga with legal and visiting address Valnu street 1, Riga, LV-1050, Latvia. The Nasdaq Riga may be contacted by phone (+371 67212431), by fax (+371 67229411) or by e-mail riga@nasdaq.com. The official website for general information is www.nasdaqbaltic.com.

The Issuer undertakes to submit all required documents regarding inclusion of each Series of Notes in the Baltic Bond List of the Nasdaq Riga not later than 3 (three) months after the Issue Date of respective Series of Notes.

The Issuer shall use its best efforts to ensure that the Notes remain listed in the Baltic Bond List of the Nasdaq Riga or, if such listing is not possible to obtain or maintain, listed or traded on another regulated market or market place. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes.

The Issuer will cover all costs, which are related to the admission of the Notes to the relevant regulated market.

The Issuer currently has one notes issue (ISIN LV0000801892) listed on Nasdaq Riga Baltic Bond List.

The Issuer has not signed any agreement with any person for Note liquidity maintenance on the secondary market.

8.21.The external audit of the information included in the Base Prospectus

The auditors have not verified the information included in the Base Prospectus.

8.22.Statements or reports included in the Base Prospectus

The Base Prospectus does not contain any expert statements or reports.

8.23. Credit ratings

There is no credit rating assigned to the Issuer or to the Notes issue.

8.24. Notices

Noteholders shall be advised of matters relating to the Notes by a notice published in English and Latvian in Central Storage of Regulated Information (www.oricgs.lv) and on Nasdaq Riga website. Any such notice shall be deemed to have been received by the Noteholders when published in the manner specified in this clause.

8.25. Force Majeure

The Issuer, the Issuing Agent and the LCD shall be entitled to postpone the fulfilment of their obligations hereunder, in case the performance is not possible due to continuous existence of any of the following circumstances:

a) action of any authorities, war or threat of war, rebellion or civil unrest;
b) disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of the Issuer and the Issuing Agent or the LCD and that materially affect operations of any of them;
c) any interruption of or delay in any functions or measures of the Issuer and the Issuing Agent or the LCD as a result of fire or other similar disaster;
d) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of the Issuer and the Issuing Agent or the LCD even if it only affects part of the employees of any of them and whether any of them is involved therein or not; or
e) any other similar force majeure or hindrance which makes it unreasonably difficult to carry on the activities of the Issuer and the Issuing Agent or the LCD.

In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that the Issuer, the Issuing Agent and the LCD shall put all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of their obligations, as soon as possible.

8.26. Representation of the Noteholders

The rights of the Noteholders to establish and/or authorize an organization/person to represent interests of all or a part of the Noteholders are not contemplated, but on the other hand, these are not restricted. The Noteholders should cover all costs/fees of such representative(s) by themselves.

8.27. Procedure for applying for the waiver

The Issuer may apply for the consent (waiver) of Noteholders to

- alter the terms stated in the Base Prospectus;
- alter the terms stated in the Final Terms of the relevant Series of Notes.

Consent of at least 51 per cent of the aggregate Nominal Value of the outstanding Notes is required to amend the terms of the Base Prospectus.
Consent of at least 51 per cent of the aggregate Nominal Value of the outstanding Notes of the respective Series of Notes is required to amend the terms of the Final Terms of the relevant Series of Notes.
The Issuer has the right to ask for the consent of Noteholders to amend the conditions included in the sections No 6.,7.,8.,9. of the Base Prospectus and the Final Terms of the relevant Series of Notes, if only they do not interfere with RoL legislation in force.
The Issuer can apply for the waiver by itself or through the appointed agent. To apply for the waiver, the Issuer or its appointed agent shall submit an application for the waiver to Noteholders via Nasdaq Riga information system and the Central Storage of Regulated Information (ORICGS), setting out at least the following information:

- a description of the changes applied for;
- a justification of the necessity of the changes applied for;
- the date when the list of Noteholders eligible to grant the waiver will be fixed;
- the term within which a Noteholder can grant the waiver to the Issuer or refuse to waive;
- instructions concerning notification about the granting of the waiver to the Issuer or refusal to grant the waiver, and the questionnaire to be filled in by a Noteholder;
- a statement that a Noteholder willing to grant the waiver to the Issuer shall notify the Issuer or its

appointed agent about it within the term specified in the application, which is certified by a postal seal or signature on receipt, and if a Noteholder does not notify about the approval to grant the waiver to the Issuer or the appointed agent within the term specified in the application, a Noteholder shall be deemed as not having granted the waiver;

- contact details of the Issuer and/ or the appointed agent to be used for notification (telephone number for queries, address for sending filled in and signed questionnaires, and list of representative offices and/ or branches of the Issuer and/ or its appointed agent where Noteholders can submit the questionnaires in person);
- other information needed by Noteholders for deciding upon granting the consent or refusal to grant the waiver to the Issuer.

The list of Noteholders shall be inquired from the LCD as of the date falling to the 5th (fifth) Business Day after the placement of the application on the Nasdaq Riga webpage. The term allowed to Noteholders for deciding upon refusal to grant the waiver to the Issuer may not be shorter than 10 (ten) calendar days after the placement of the application on the Nasdaq Riga web page.

Noteholders shall submit signed questionnaires with their decision to the Issuer or its appointed agent by a deadline set in the application. The Notes owned by the Issuer and / or its affiliated persons (subsidiaries, shareholders, management or employees) are not eligible to participate in the voting.

The Issuer or its appointed agent shall sum up the received votes and notify the public of the results of the voting within 1 (one) Business Day after the deadline for submitting the questionnaires by placing a relevant advertisement on Nasdaq Riga web page and ORICGS.

If the accepted changes refer to specifications of the Notes and/ or interest calculation method, as well as procedure of interest payments and/ or repayment of the Nominal Value, the Issuer shall inform the LCD on the mentioned changes according to the regulation determined in the LCD rules.

9. Terms and Conditions of the offering

9.1. Placement account and the issuance of Notes

Initially the Notes of the respective Series of Notes will be book-entered in the placement account of the Issuing Agent within LCD.

The offering of Notes will consist of:

- public offering to institutional and retail investors in the Republic of Latvia and Republic of Estonia; and
- private placement to institutional investors in certain Member States of the European Economic Area in each case pursuant to an exemption under Article 3 of the Prospectus Directive (Directive 2003/71/EC), as implemented by the respective Member States of EEA.

9.2. Subscription period

The subscription period for each Series of Notes will be specified in the Final Terms of respective Series of Notes.

9.3. Submission of Subscription Orders

The Potential Investors wishing to purchase the Notes shall submit their subscription orders to acquire the Notes at any time during the Subscription Period to the Issuing Agent. More detailed information on the submission of the subscription orders is available by phone +371 67031222.

The Potential Investors who have opened a securities account with the Issuing Agent can submit their subscription orders directly to the Issuing Agent. Other Potential Investors should submit their subscription orders through the credit institutions and investment brokerage firms or other financial intermediaries from which the investors receive investment services.

Minimum subscription amount for each Series of Notes will be specified in the Final Terms of respective Series of Notes.

9.4. Subscription Orders

The number of demanded Notes should be stated in the order.

Potential Investors have the right to submit several subscription orders during the offering. However, all investor’s orders will be aggregated and considered as one order.

Subscription orders to the Notes are irrevocable. The Issuing Agent will register all submitted subscription orders of its clients according to legal requirements and internal procedures.

9.5. Issue Price

The Issue Price of each Series of Notes shall be specified in the Final Terms of respective Series of Notes.

9.6. Reduction of size of the Series of Notes

If the total number of the Notes issue subscribed is less than as defined in the Final Terms of respective Series of Notes, the Issuer has the right to declare the Notes issue completed in the actual subscribed amount, reduce the amount of issued or declare the issue null and void and terminate the initial offering.

9.7. Notes allocation

The Notes will be allocated to investors according to the following algorithm:

- If the total number of the Notes subscribed is less or equal to the total amount of Notes be specified in the Final Terms of respective Series of Notes, investors’ orders will be satisfied in full amount;
- If the total number of the Notes demanded by investors is larger than the total amount of Notes to be specified in the Final Terms of respective Series of Notes, the Notes will be allocated to investors at the discretion of the Issuing Agent.

9.8. Settlement and delivery of the Notes

The settlement date for the Notes after the initial offering will be specified in the Final Terms of respective Series of Notes.

Settlement of the Notes will be executed through the LCD as DVP (delivery versus payment) transactions according to the LCD rules No 5 "On DVP Settlement for OTC Transactions”. The credit institutions and investment brokerage firms or other financial intermediaries from which the investors receive investment services execute payments for the Notes based on the results of the subscription provided by the Issuing Agent. The Notes will be transferred to investors’ financial instrument accounts on the settlement date.

Settlement for the Notes can be executed according to other procedure, which is agreed to by the Issuing Agent and Potential Investor.

9.9. Announcement of the offering results

Not later than on the next Business Day after the initial offering period the Issuing Agent announces the results of the subscription to all Potential Investors and Custodians that have submitted subscription orders on their behalf or on the behalf of Potential Investors.

10. Taxation

10.1. Notice

This summary is of general nature and should not be considered a legal or tax advice. Section 10. of the Base Prospectus does not contain full and complete information on all the taxes that relate to investment in the Notes. Tax rates and conditions for paying taxes change during the life of the Notes. Prospective Noteholders should consult with their own tax advisors with respect to their particular circumstances and the effects of the Latvian or the Estonian or any other foreign tax laws to which they may be subject to.

10.2. Tax consequences in Latvia. Definitions of resident and non-resident

An individual is considered resident of Latvia for tax purposes if:

- his or her registered place of living is in Latvia; or
- he or she stays in Latvia for more than 183 days within any 12-month period; or
- he or she is a citizen of Latvia and is employed abroad by the government of Latvia.

If an individual does not meet any of the above-mentioned criteria, he or she is considered a non-resident for tax purposes.

Any legal entity is considered resident of Latvia for tax purposes if it is or should be established and registered in Latvia according to the Latvian legislation. Other legal entities are considered non-residents.

Table 1 – Tax consequences in Latvia regarding the income derived from Notes that are issued by a legal entity registered in Latvia [not being a credit institution] as at 01 July 2016

Legal status of income beneficiary	Notes that are in the Public Circulation		Conditions
	Interest tax rate	Capital gains tax rate	
Individual resident of Latvia	10%	10% [1]	10% tax from the interest (coupon) income is withheld and transferred to the State budget by an Issuer of Notes, if it is registered in Latvia. [1] Capital gains from a sale of Notes are considered equivalent to an interest income and taxed at 10% rate in Latvia. Self-assessment and payment of a tax on capital gains [i.e. profits] in Latvia is performed by a beneficiary of capital gains – a resident individual filing the Annual Income Statement.
Company resident of Latvia	exempt	exempt	Interest (coupon) income and a capital gain from the Notes being issued in the Public Circulation within the EU or the EEA are tax exempt.
Individual non-resident	exempt [2, 3]	exempt [3]	Interest (coupon) income and a capital gain from the Notes being issued in the Public Circulation are tax exempt in Latvia. [2] An Issuer of Notes withholds 15% tax from interest (coupon) payments, if they are made to a non-resident individual registered in one of the low tax or non-tax countries or territories specified by the Cabinet Regulations of Latvia (so called “the black listed countries and territories”). [3] A non-resident individual being a beneficiary of interest (coupon) income or capital gains could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia.

Company non-resident	exempt [4, 5]	exempt [5]	Interest (coupon) income and a capital gain from the Notes being issued in the public circulation are tax exempt in Latvia. [4] An issuer of Notes withholds 15% tax from interest (coupon) payments, if they are made to a company non-resident registered in one of the low tax or non-tax countries or territories specified by the Cabinet Regulations of Latvia (so called "the black listed countries and territories"). [5] A company non-resident being a beneficiary of interest (coupon) income or capital gains could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country, which may or may not be higher than the one applicable in Latvia.

Source: RoL legal acts

10.3. Tax consequences in Estonia. Definitions of resident and non-resident

An individual is considered resident of Estonia, if at least one of the following requirements is met:

- the person's place of residence is in Estonia;
- the person stays in Estonia for at least 183 days over the course of a period of 12 consecutive calendar months;
- the person is an Estonian state public servant who is in a foreign service.

If an individual does not meet any of the above-mentioned criteria, the person is considered a non-resident for tax purposes in Estonia.

Any legal entity is considered resident of Estonia for tax purposes if it is established or registered in Estonia. Other legal entities are considered non-residents of Estonia.

Table 2 – Tax consequences in Estonia regarding the income derived from Notes that are issued by a legal entity registered in Latvia [not being a credit institution] as at 01 July 2016

Legal status of income beneficiary	Notes that are in the Public Circulation		Conditions
	Interest tax rate	Capital gains tax rate	
Individual resident of Estonia	20%	20%	Interest (coupon) income and a net capital gain derived from the Notes being issued by a legal entity registered in Latvia are subject to 20% income tax in Estonia. The tax obligation can be deferred using an investment account.
Company resident of Estonia	20/80 of the Estonian company's net profit distributed (equals to 20% of gross profit)	20/80 of the Estonian company's net profit distributed (equals to 20% of gross profit)	The tax obligation regarding interest (coupon) income and a capital gain from the Notes is deferred to the moment of distributing profits of an Estonia company. The corporate income tax is levied at a gross rate of 20% on an Estonian company's profit distribution, dividends, gifts, fringe benefits, non-business expenditure and excessive capital reductions.
Individual non-resident	exempt [1]	exempt [1]	Interest (coupon) income and a capital gain from the Notes being issued by a legal entity registered in Latvia are not subject to income tax in Estonia. [1] A non-resident individual being a beneficiary of interest (coupon) income or capital gains could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country.
Company non-resident	exempt [2]	exempt [2]	Interest (coupon) income and a capital gain from the Notes being issued by a legal entity registered in Latvia are not subject to income tax in Estonia. [2] A company non-resident being a beneficiary of interest (coupon) income or capital gains could be obliged to assess and pay tax in its country of residence at the tax rate specified in the relevant country.

Source: Republic of Estonia legal acts

11. The Issuer

11.1. Auditor

The auditor of the Issuer's financial statements for 2014 and 2015 is "Ernst & Young Baltic" (Riga, Latvia). Full audited financial reports for 2014 and 2015 together with the auditors reports are attached in Appendix A and Appendix B.

Auditors have not verified the information included in the Base Prospectus.

11.2. General information on the Issuer

11.2.1. Name, registration and legal information

The Issuer's firm is akciju sabiedrība "ELKO GRUPA".
The Issuer was founded on 14 May 1993 and its registration number is 40003129564.
The term of the Issuer's activities is indefinite. Legal form of the Issuer is joint-stock company, legal status – legal person.
The place of foundation is the RoL. The Issuer carries out its activities in accordance with the legal acts of the RoL.
Legal address and location of management is Toma street 4, Riga, Latvia.
The Issuer's phone number for general enquires is +371 6709 3230 and e-mail address marketing@elkogroup.com.

The main legal acts of the Republic of Latvia, which regulate the operation of the Issuer, are:

- the Commercial Law (*Komerclikums*);
- the Civil Law (*Civillikums*);
- the Labour Law (*Darba likums*); and
- any binding Cabinet Regulations of Latvia (*Ministru Kabineta noteikumi*).

11.2.2. Share capital of the Issuer

Issuer's subscribed and paid-up share capital with voting rights is EUR 9,784,790. The Issuer's share capital is split into 9,784,790 ordinary registered shares. The nominal value of each share is EUR 1.

11.2.3. Articles of Association of the Issuer

The Issuer is registered with the Commercial Register of the Republic of Latvia under registration number 40003129564.

The objects and purposes of the Issuer are stated in Clause 3 of the Articles of Association of the Issuer of which the main objects are wholesale of information and communication equipment, wholesale of computers, computer peripheral equipment, software and electrical household appliances.

11.2.4. Recent significant developments

Below are described the most significant developments since 2013.

Table 3 – The most significant developments of the Issuer since 2013

2016	• ELKO Group unaudited consolidated revenue for 1st half of 2016 reached USD 541 million and net profit USD 4 million • ELKO Group joins the Global Technology Distribution Council. • ELKO Group acquires the Official Distributor Status of Lenovo Notebooks in Russia • ELKO Grupa AS (short name: ELG) bonds has be listed on the Nasdaq Baltic Bond List by Nasdaq Riga as of March 21, 2016 • ELKO Group has established new business division - ELKO Solutions, thus continuing to strengthen its positions as solutions and services distributor

2015	• ELKO Group starts distribution of Dell products in the Baltics • ELKO Group starts to distribute Huawei smartphones and tablets in Russia • Distribution contracts are concluded with AEE, AIINO, LANNER, MAZi, NETIS, SVEN and Cilent Circle • ELKO Group receives syndicated loan in amount of USD 63 million from Nordea Bank AB Latvian branch, AS SEB Banka and AS Swedbank • ELKO Group closes year 2015 with audited USD 1,264 million sales and net profit USD 21.8
2014	• ELKO Group expands cooperation with IBM Global Finance and Deutsche Bank • ELKO Group starts distribution of LENOVO smartphones in the CEE market • Distribution contracts are signed with AEG POWER SOLUTIONS, ADAPTEC, AQIPA, SANDISK, SUNELLA, SWANN • New warehouses are opened in St. Petersburg (Russia) and Bucharest (Romania); bigger warehouse is used in Moscow (Russia)
2013	• ELKO opens its subsidiary in Kazakhstan; • Cooperation with insurance company Atradius is started; • ELKO becomes the official distributor of Lenovo smart phones and tablet PC's in Russia, Ukraine and Kazakhstan

11.2.5. Investments

The last audited financial statement of the Issuer is an audited consolidated financial statements for the year ended 31 December 2015. As of that date, the Issuer has not made any significant investments outside its usual economic activity. The Issuer's management has not undertaken any obligations for the investments planned in future.

11.2.6. Material contracts

The Issuer has not entered into any material contracts outside the ordinary course of business, which could result in the Issuer coming under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Noteholders in respect of the Notes.

12. Business review

12.1. Brief summary

ELKO Group is one of the leading IT and consumer electronics wholesale companies in the CEE and the CIS region. The company was established in 1993 and its headquarters remain in Riga. Currently ELKO Group employs over 730 people throughout its subsidiaries. Consolidated revenues in 2015 reached USD 1.26 billion.

12.2. Operating environment

ELKO Group operates in a number of countries across Europe and Middle East region. ELKO Group revenues depend on political, macroeconomics and legal environment in the EU and non-EU regions. Countries that are part of the European Union exhibit more homogeneous development where economic cycles tend to be highly correlated. ELKO Group distinguishes three main regions – the Baltics, the CEE and the CIS.

12.2.1. The Baltic's region

Estonia, Latvia and Lithuania were the first markets for ELKO Group. The markets are rather small, with total number of inhabitants of just 6.2 million[1]. There has been a steady recovery after the deep recession in 2008-2009 and the gross domestic product (GDP) growth is currently around 1-3%, which is higher than in many developed countries in the EU. Rising disposable incomes, inflow of foreign direct investments and membership in the EU and the Eurozone present ELKO Group an opportunity for further successful operation in the Baltics.
ELKO Group's revenues in this region have been around 8-9% of total revenues.

12.2.2. Central and Eastern Europe

ELKO Group's second largest region is the CEE. This region includes many countries and ELKO Group has chosen Czech Republic, Slovakia, Romania and Slovenia where it has subsidiaries with and offices. Total number of inhabitants in these countries is 37.9 million. The economic development is quite diverse with Slovenia having the highest GDP per capita of USD 23.9 thousand and Romania the lowest at USD 9.9 thousand. In 2015, the real GDP growth was in the range of 2.9-4.2%.
ELKO Group services other countries in the Balkan region from the CEE offices. Hungary, Serbia, Bulgaria and Croatia are the biggest ones and experience similar economic patters as the whole CEE region.
Czech Republic, Slovakia, Romania, Slovenia, Hungary, Bulgaria and Croatia are members of the European Union, Slovakia and Slovenia have euro as their official currency. Serbia is a candidate member of the EU.
ELKO Group's revenues in this region have grown from 13% in 2013 to 35.5% in the 2015 and 47.1% as of 30 June 2016. Occasionally, ELKO Group may have insignificant business with partners in neighbouring countries.

12.2.3. CIS region

The most important market for ELKO Group is Commonwealth of Independent States, which includes Russia, Ukraine and Kazakhstan among others. Russia being the largest country in Europe in terms of inhabitants (146.3 million) offers ample of business opportunities. ELKO Group started business in the country in 1995 and several years later attracted two shareholders from Russia.
Russia's and Kazakhstan's economy depend on oil and gas industry. Energy prices experiences significant decline starting in the 2nd half of 2014. This has resulted in the wave of drop of national currencies of all the CIS countries, which puts significant pressure on import volumes including consumer electronics and IT hardware segment.
Political and economic turmoil in Ukraine started at the end of 2013. The country experiences rapid decline of GDP (-8.2% in 2014, -9.9% in 2015[2]), high levels of inflation (48.7% in 2015) and significant drop in the value of national currency (from UAH 8 per 1 USD to UAH 25 per 1 USD as of May 2016).
The share of the CIS market declined from 80% to around 60% of ELKO Group's consolidated revenues, due to the economic uncertainties in particular region as well as due to ELKO Group's management's continuous efforts to increase business volume in CEE region. Unaudited results for the six months 2016 shows that proportion of ELKO Group revenue in CIS market has decreased to 43.9%.

[1] Eurostat is a source for country and macroeconomics data for Baltic and the CEE region
[2] The National Bank of Ukraine is a source for country and macroeconomics data

12.3.Competition

ELKO Group faces strong competition in all of its markets. There are both regional and local competitors operating in each country. Regional players are such as Action, ASBIS, ABC Data and Also that are roughly of the same or bigger size (in terms of revenues) as ELKO Group. Some of the competitors are listed on the stock exchanges and have access to cheaper funding than the Issuer.

Each IT and consumer electronics distributor tries to differentiate itself by offering wider products range, financing options, and delivery speed including availability of certain products in own warehouses.

The main barriers to entry in distribution industry are vendor relations, which may include geography limitations, availability of own capital as well as vendor and bank financing availability, accounts receivable insurance terms and prices. Expertise of certain processes is developed internally and is hard to replicate.

12.4.Strategy

ELKO Group's strategy is to be the preferred distributor of IT and consumer electronics products in the CEE and the CIS market.

ELKO Group's strategy is to be a market leader via the following cornerstones:

- Targeted sales channel management based on balanced customer portfolio;
- New value proposition by introducing newest technology;
- High quality service based on local market requirements and customer segmentation;
- Optimized and automated operation processes complying with the highest industry efficiency indicators;
- Maximized return on capital by combining supply chain, product groups and customer segments;
- Professional, result oriented and engaged employees.

12.5.Main activities

ELKO Group is a distributor of IT and consumer electronics hardware and software as well as provides IT solutions. ELKO Group has to manage relations with vendors, which are usually well known global manufacturers, with logistics partners that have to ensure timely deliveries and clients that are located in various countries and vary in terms of purchasing volumes, product mix, payment options etc.

12.5.1. Clients

ELKO Group has a wide and diversified client base, which includes more than 6,400 clients as of 31 December 2015. After the global financial recession in 2008-2009, total number of clients have decreased due to industry consolidation, but has recovered back to pre-crisis levels at the end of 2015.

Table 4 – Number of clients

Year	Number of customers	Share of TOP10 in revenues	Share of TOP5 in revenues
2009	6 471	33%	18%
2010	5 904	27%	21%
2011	3 297	28%	21%
2012	3 651	31%	23%
2013	3 871	33%	23%
2014	4 651	35%	25%
2015	6 409	28%	21%
Q1 2016	4 419	33%	27%

Sales approach and principles varies from product groups and customer segmentations. Customers in all countries are segmented to: system integrators, retailers, e-tailers, system builders, resellers. Depending from the customer groups varies provided distributions services mix in terms of logistic, finance, product stocking, technical pre-sales or after-sales, account handling, marketing support and etc.

The client base can be divided in several groups:

- **Original Equipment Manufacturers (OEMs) and Value-Added Resellers (VARs)**
  - Approximately USD 125 million of ELKO Group sales during 2015 that is 10% of the total revenue;
  - PC assemblers who buy components from multiple sources and construct own-brand PCs;
  - Require regular supply and 'just-in-time' shipments;
  - Tender requests requiring competitive pricing and guaranteed shipments provide additional volume.
- **System Integrators (SI)**
  - Approximately USD 225 million of ELKO Group sales during 2015, that is 18% of the total revenue;
  - Sell self-assembled PCs for special IT projects;
  - Can generate significant volume on large projects;
  - Large system integration projects require competitive pricing and guaranteed lead-time;
  - ELKO Group adds significant value with product knowledge, expertise and wide product portfolio, helping SI's to build complete solutions.
- **Sub-distributors Resellers**
  - Approximately USD 238 million of ELKO Group sales during 2015, that is 19% of total revenue;
  - No direct contact with vendors;
  - Tend to supply niche markets (either geographic or product);
  - Sometimes act as sub-distributors;
  - Resellers tend to work as product brokers, taking an opportunistic approach to buying.
- **Retailers and e-tailers**
  - Approximately USD 338 million of ELKO Group sales during 2015, that is 27% of total revenue;
  - Supermarkets, hypermarkets, large retail electronic chains etc.
  - Significant demand for notebooks and consumer electronics;
  - Exhibiting strong growth in ELKO Group regions;
  - Demand special terms and very long payment periods.
- **GSM channel**
  - Approximately USD 325 million of ELKO Group sales during 2015, that is 26% of total revenue;
  - New developed customer segment mainly for GSM business;
  - Channel segmented from retailers, e-tailers and resellers. Addition to classical retail channel;
  - Significant demand for mobile phones, smartphones and tablets;
  - Exhibiting a strong growth in ELKO Group regions;
  - Demand special terms and very long payment periods.

ELKO Group has no plans to alter any of its sales channels. In the future changes might occur due to increase of a share of business solutions in the revenues and the net profit (see clause 12.5.4. of the Base Prospectus).

Distribution of IT hardware and consumer electronics exhibits some seasonality due to active holiday shopping and public tenders each year during the fourth quarter (October – December). Usually 33-34% of ELKO Group's revenues are generated at year end, which also means high levels of accounts receivable and extensive use of credit lines during the same period. At the same time the second quarter (April – June) has the smallest revenues (19-20%).

Efficient inventory management allows making timely deliveries with the lowest amount of tied up capital.

Table 5 – Amount of inventories and write offs, 2012-2015, USD thsd.

	31.12.2012.	31.12.2013.	31.12.2014.	31.12.2015
Inventories	182 396	210 106	237 593	222 146
Write-offs of damaged and missing goods	350	244	300	415

12.5.2. Client credit risk management

ELKO Group internally evaluates each client and possibilities to sell on credit. In most cases, invoices are paid within 7 to 90 day period. Credit risks are regulated by credit policy, centrally developed yet tailored for each specific region. Credit policy is developed and implemented by credit control unit that employs professionals with extensive experience in field.

Credit control team caries relevant and high quality risk assessment on each credit limit as well as follows strict procedures on regular follow-up on already assigned limits.

Since September 2013, ELKO Group cooperates with Atradius for insuring Elko Grupa, Elko Mobile and Elko Trading Switzerland debtors, Elkotech Romania debtors.

Furthermore, ELKO Group uses other tools to mitigate credit risk starting from blocking all shipments to any customer with delay, continuing with sophisticated alert system that signalizes about changes in customers payment and buying habits, and ending with different kinds of collaterals for limits.

As of 31 December 2015, levels of insured accounts receivable of Elko Grupa, Elko Mobile (debtors in CEE region) and Elkotech Romania were 62%, 73% (from CEE region insured of 93% of accounts receivable) and 57%, respectively.

Quality of ELKO Group's internally developed credit scoring can be described as high as the share of not overdue net trade receivables for the past four years has been almost unchanged at the level of 96-98%.

Table 6 – Quality of trade receivables, 2012-2015, USD thsd.

	31.12.2012.	31.12.2013.	31.12.2014.	31.12.2015
Trade receivables	**152 153**	**132 659**	**96 305**	**97 339**
Allowance for Impairment	- 28 164	- 408	- 371	- 340
Net trade receivables, of which	**123 989**	**132 251**	**95 934**	**96 999**
Not over due	119 100	128 924	92 986	95 092
Share of not over due	96%	97%	97%	98%
< 90 days	4 772	3 221	2 916	1 671
90-180 days	72	67	6	229
>180 days	45	39	26	7

12.5.3. Product portfolio

ELKO Group has an ability to offer large range of IT and consumer electronics products. The product mix determined by relations with particular vendor and demand in the regions where ELKO Group operates. Rapid increase of Smartphone & Table segment is related to signing an exclusive agreement with Lenovo related to distribution of smartphones in Russia. On the other hand, decline of Desktop Solutions segment is mainly influenced by changing customer habits towards more mobility.

Table 7 – Breakdown of revenues by product segments, 2008-2015

Gads	Desktop Solutions	Smartphones & Tablets	Mobile solutions	Consumer and Multimedia	Server, Storage & Security Solutions	Software
2008	44%	0%	35%	13%	7%	1%
2009	43%	0%	35%	14%	7%	1%
2010	43%	0%	38%	9%	8%	2%
2011	39%	1%	40%	8%	9%	3%
2012	34%	6%	39%	7%	10%	4%
2013	26%	17%	32%	9%	12%	4%
2014	22%	40%	16%	9%	10%	3%
2015	17%	53%	12%	7%	10%	1%

12.5.4. Development of product portfolio

ELKO Group's pays big attention on solution portfolio, in particularity focus on server, storage, video-surveillance and industrial product portfolio. Thus the company will have more vendors in portfolio supplying generic IT and industry focused products. From customers' perspective ELKO Group will have deeper engagement in vertical market and will expand and widen the customer base. In the next couple of years, area of attention is also going to be cloud computing, servicing and embedded products with aim to support IoT (internet of things) ecosystem.

12.5.5. Vendor relationship management

ELKO Group actively manages product portfolio through diligent selection of vendors. The main criteria are:

- product quality,
- pricing strategy,
- marketing strategy,
- logistic setup,
- finance services,
- partner enablement services,
- after-sales and RMA services,
- availability of different set of operational tools.

ELKO Group has established general rules of vendor portfolio development considering: product group, products segmentation and characteristic, vendor maturity in terms of R&D investment, local persistence and engagement in channel, vendor recognition on particular market, vendor market share and cross vendor strategic alignment. ELKO Group revises vendors on quarterly basis.

As of 31 December 2015, ELKO Group has 140 vendors of which with 70 vendors relations have lasted for more than five years. Currently Lenovo is the main vendor and it has granted ELKO Group exclusive rights to sell smartphones in Russia.

Table 8 – Breakdown of revenues by vendors, 2014 – Q1 2016

2014		2015		Q1 2016	
Vendor	Share in revenues, %	Vendor	Share in revenues, %	Vendor	Share in revenues, %
LENOVO	35.51%	LENOVO	44.06%	LENOVO	44.18%
INTEL	10.88%	APPLE	8.77%	APPLE	13.51%
SEAGATE	7.21%	INTEL	8.17%	INTEL	6.52%
APPLE	7.10%	ACER	5.41%	SEAGATE	4.28%
WESTERN DIGITAL	6.82%	SEAGATE	4.69%	WESTERN DIGITAL	4.14%
ACER	6.76%	WESTERN DIGITAL	4.28%	ASUS	3.43%
ASUS	4.46%	ASUS	3.45%	ACER	3.30%
MICROSOFT	3.05%	HGST	2.06%	HUAWEI	2.73%
HGST	2.09%	HUAWEI	1.88%	HGST	1.54%
AMD	1.94%	KINGSTON	1.57%	SAMSUNG	1.50%
	85.82%		**84.33%**		**85.13%**

Each vendor has its own sales and promotions program. Programs differs from the aim of the program, there are: sales out programs, sales in programs, price protection programs, special price programs, different type of marketing programs, with different details and maturity. Majority of the sales programs include calculating back end rebates, which is a crucial term in the industry.

Product distribution in a certain market goes hand in hand with a particular marketing strategy, which varies from vendor to vendor. There is complex mixture of vendor engagement in distribution channel or direct end customer marketing. Marketing programs vary from 100% support of marketing activities with different marketing budget to very limited marketing support. MDF (market development funds) could be expressed as a share of revenue or could be set as a fixed budget. Similar to COOP (cooperation funds) with join engagement of investment in different pro rata. Public relations campaigns could be at sole vendor decision or joint with distributor or customers in different co-budgeting variations.

Each year vendors publicly acknowledge their best distributors with awards. During the past several years ELKO Group has received a number of awards from Intel, Microsoft, HGST, Western Digital, Advantech, ASUS, Sapphire and others.

12.6.Logistics

ELKO Group currently conducts its business out of ten countries. ELKO Group works with logistics hubs in the Netherlands (Schiphol and Rotterdam), Latvia (Riga), Finland (Espoo) and United Arab Emirates (Dubai) to store products from vendors and deliver them to ELKO Group local warehouses or to customers. In addition, ELKO Group also leases and operates in other warehouses at the regional offices in Slovakia, Slovenia, Romania, Ukraine, Kazakhstan and Russia.

Typically, products are delivered by vendors to one of the above-mentioned hubs and further transferred either directly to customers or to one of the smaller warehouses at the regional offices. The Schiphol warehouse is owned and operated by COPEX, a Rhenus Logistics Group's company and, depending on ELKO Group's needs, its available size is 2,300m². This facility acts as the Group's primary hub, serving customers in the CEE and CIS.

Helsinki warehouse, 1,890m^2 in size, is operated by Komerk Logistics Finland OY and this facility serves as ELKO Group's hub for CIS-bound merchandise shipments. The 2,100 m² Riga warehouse serves the Baltic region. The Schiphol and Helsinki warehouses are outsourced from operators, while Riga warehouse and the six other regional warehouses, are leased. The ELKO Group's decision to lease/outsource rather than buy property has been a consistent strategic choice to minimise capital expenditure and provide a flexible platform that can support rapid growth. As of 30 June, 2016, ELKO Group leased approximately 17,500m² of warehouse space. In addition, the ELKO Group has entered a long-term lease for the office space in Riga with the area of 2,527 m² and leases other office space in other countries where it operates.

Deliveries from the Schiphol warehouse are conducted by DSV, GEFCO, DHL, COPEX and others. Deliveries to and from the Riga warehouse as well as the regional warehouses are conducted by DSV, DHL, FedEx, TNT, DPD and others. In limited instances, vendors will provide transportation and delivery directly to the customer at no cost to the ELKO Group, in which case ELKO Group enjoys such cost savings.

In cooperation with ELKO Group vendors direct deliveries to Russia and Ukraine by sea, air and road are established.

ELKO Group constantly focuses on reducing logistics cycle times, which is a critical component of its competitive advantage as well as a key factor for success in working capital management.

12.7.IT systems

ELKO Group extensively uses IT systems in its daily operations. The main two are Enterprise Resource Planning (ERP) system JD Edwards and B2B system developed by ELKO Group (eCom).

eCommerce – the process by which customers place their orders with a distributor directly online, has moved to the forefront of trends in the IT distribution industry. ELKO Group was among the market leaders in the markets in which it operates in developing its B2B eCommerce site, eCom. As a result of eCom, the ELKO Group improved logistics performance, reduced costs, increased quality of service, enhanced customer experience and loyalty and distinguished itself from its competitors.

ERP system JD Edwards performs role of accounting, order management and backend of online inventory. With the successful implementation of the JD Edwards operating system, not only is ELKO Group able to monitor its inventory, it is also able to provide its vendors with the status of its sales and inventory, all on a real-time basis. JD Edwards platform enhances the quality and transparency of its relationships with vendors, which, as a result, ELKO Group expects will lead to more favourable credit terms and the foundation to develop new vendor business.

ELKO Group uses JD Edwards to control its cash flow, product flow and inventory, as well as to support communications, most significantly in the sales process. The JD Edwards system controls order entry from subsidiaries, backlog and inventory level and tracks all inventory from the moment it leaves the vendor to delivery to the customer, and all stops in between. As a result, the status of inventory can be monitored on a real-time basis.

Latest major development was Romanian office integration in JD Edwards. Project started in the first quarter of 2015 with gradual fine-tuning over longer period. With this upgrade, Elko is able to obtain on-line data from the office and information is more accurate.

JD Edwards and eCom systems are supported and developed by in house developer teams.

12.8.Employees

ELKO Group financial achievements in large part depend on the management's ability to hire, train and motivate employees, who are spread across all the countries where ELKO Group is represented. During the past several years the total number of employees has been in the range of 709 to 740. Most of employees are located in Moscow and Riga offices.

Table 9 – Employees by region, Q1 2016

Office location	Employees	Share of employees
HQ (Riga)	**215**	**29%**
CIS	**360**	**49%**
Russia	274	37%
Ukraine	93	13%
Kazakhstan	3	0%
CEE	**148**	**20%**
Romania	62	8%
Slovakia	71	10%
Slovenia	17	2%
Lithuania	**8**	**1%**
Estonia	**7**	**1%**
Total:	**738**	**100%**

Two main areas of employment are related to sales and logistics where 42% and 28% of all employees are working.

Table 10 – Breakdown of employees by function, Q1 2016

Function	Employees	Share of employees
Administration, Management	54	7%
Sales, Marketing, Distribution	308	42%
Finance	86	12%
IT	45	6%
Logistics	210	28%
Return Merchandise Authorization (RMA)	35	5%
Total:	**738**	**100%**

ELKO Group has received an award from DNS «ELKO Group Excellent employer, DNS 2015».

12.9. Operational plans

ELKO Group near term plans include:

- Develop solution business
- Improvement of efficiency of broadline business;
- Create additional value added services to clients and vendors
- Diversify vendor portfolio
- Diversify geographical presence

12.10. Information about any known trends affecting the Issuer

Besides constant pressure on the devaluation of Russian Ruble, Kazakh Tenge and Ukrainian Hryvnia and other currencies of developing countries, at the date of this Base Prospectus there are no information on any other known trends that are reasonably likely to have a financial effect on the Issuer and the industries in which the Issuer operates.

12.11. Profit forecast or estimate

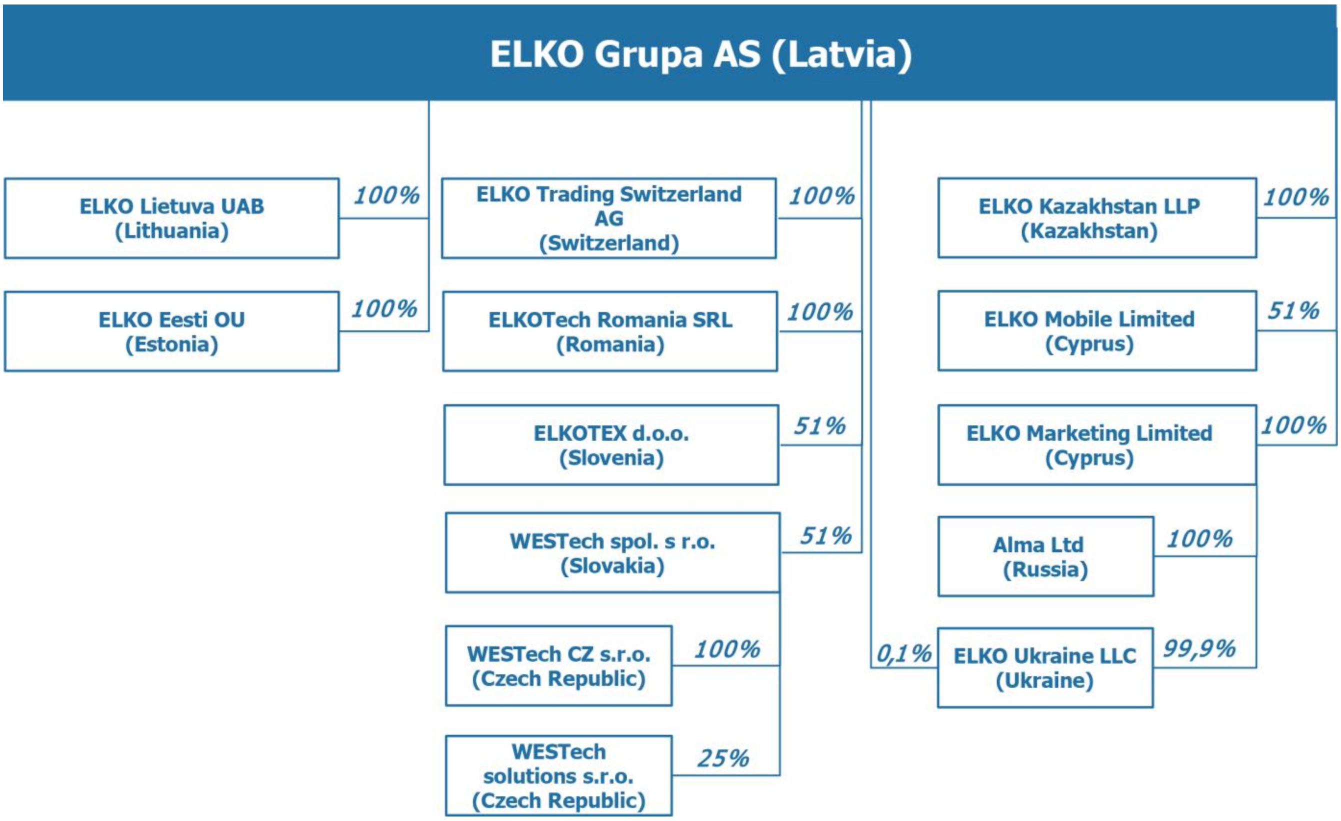
The Issuer has not made any profit forecast or profit estimate in this Base Prospectus.

12.12. Membership in other organizations

ELKO Group is a member of several non-profit organizations:

- Latvian Association of Computer Technologies;
- The Custom Trade Advisory Council;
- Latvian Association of Personnel Management;
- The Information Systems Audit and Control Association.

13. Organizational structure



ELKO Group legal structure supports distribution of products in all the target markets

14. Management bodies of the Issuer

The main management bodies of the Issuer are the General Shareholders' meeting, the Council, the Board and the Audit Committee. Each member of the Board is responsible for certain structural units of the ELKO Group – divisions and departments.

14.1. Council

The Council of the ELKO Group consists of four members:

- Andris Putāns, chairman
- Indrek Kasela
- Kaspars Viškints
- Ēriks Strods

All the members of the Council are either beneficial owners or representatives of the shareholders.

14.2. Board

The Board of the Issuer consists of five members:

- **Egons Mednis**, Chairman of the Board
  - ELKO Group President, Chairman of the Board, stakeholder and one of the founders of the ELKO Group;
  - Egons Mednis plays a vital role in development of long-term strategies for the further successful development of the ELKO Group;
  - Education: Graduated Engineering and Computing studies at Riga Polytechnical Institute (1992).
- **Svens Dinsdorfs**, Chief Executive Officer
  - As the current Chief Executive Officer (CEO), Svens Dinsdorfs is responsible for the day-to-day management of the whole ELKO Group and takes active role in ELKO Group business development projects;
  - Svens Dinsdorfs has been with ELKO Group since 2006 and before taking over position as Chief Executive Officer he was Chief Financial Officer;
  - Before joining ELKO Group, Svens has gained experience in Latvian national airline airBaltic and Sirowa Group, a distributor of cosmetics and pharmaceutical products;
  - Education: graduate of Stockholm School of Economics with Master of Science degree in Finance (2003).
- **Aleksandrs Orlovs**, Business Development Director
  - Aleksandrs Orlovs joined ELKO Group team in 2005, from 2011 started to lead distribution department as a Distribution Director, and from 2016 started as a Business Development Director
  - Education: Executive Master of Business Administration at Stockholm School of Economics in Riga (2010), Professional higher education in law at University of Latvia, Law faculty (2007).
- **Māris Būmanis**, Chief Financial Officer
  - Maris Bumanis is responsible for supervision of ELKO Group's internal and external financial reporting, developing and monitoring Group's financial control and risk management policies;
  - Before joining ELKO Group in summer 2008, M. Bumanis has gained 10 years of experience in the international audit company "Ernst & Young" and as an auditor has participated in audit and other assurance projects of large local and multinational companies in Latvia and the Netherlands;
  - Education: graduate of Stockholm School of Economics in Riga with Bachelor degree of Business administration and Economics (2000). Maris has obtained ACCA Certificate.
- **Mārtiņš Ozoliņš**, Distribution Director
  - Mārtiņs Ozoliņš main duties are to ensure and simplify the cooperation between the manufactures/suppliers and sales offices as well as ensuring the accomplishment of the plan and the control of the purchasing and selling processes;
  - Mārtiņs Ozoliņš has been with ELKO Group since 2010 starting as a Head of Treasury;
  - Before joining ELKO Group, M. Ozoliņš has gained experience in the international audit company "Ernst & Young", insurance company "Balta" and "Parex Bank";
  - Education: MBA in Innovation and Entrepreneurship from Riga Technical University, graduate of Stockholm School of Economics in Riga with Bachelor degree of Business administration and Economics (2002).

14.3. Audit committee

The audit committee of the ELKO Group consists of one member:

- **Ainis Dābols**

Audit committee of the ELKO Group was created according to Section 54.[1] of the Financial Instrument Market Law of RoL.

14.4. Conflicts of interests of administration, management and supervision bodies

The persons mentioned in the section 14 of the Base Prospectus may have business interests in entities outside ELKO Group, however, to the best knowledge of the Issuer they have no conflict of interests between their obligations against the Issuer and their private benefit or any other obligations.

All the transactions between the Issuer and its related parties are disclosed in the financial reports. During 2014 and 2015 the Issuer paid to AST Balts (Latvia) USD 2.01 million and USD 1.65 million for rent of warehouse and office premises. Amounts owed from related parties is USD 3.73 million on 31 December 2015 and USD 0 on 31 December 2014. Amounts owed to the related parties and revenues from related parties are insignificant.

14.5. Corporate management practice

The ELKO Group complies with the company management principles in force in Latvia and internationally accepted practice in relation to corporate management. In order to ensure that cooperation partners and clients understand their work and to promote confidence in their long-term economic potential, the ELKO Group pays great attention to ensuring the transparency of business, personnel training, improving the quality of services, and provision of high-quality services.

The ELKO Group plans to continue improving its corporate governance practice in accordance with Nasdaq Riga Corporate Management Principles and recommendations, as well as internationally accepted practice.

15. Principal shareholders

The current structure of the Issuer's shareholders is as follows:

- **Ashington Business Inc.** Limited (United Kingdom), beneficiary owner – Stanislav Matveev, owns 19.78% of share capital;
- **Solsbury Inventions Limited** (United Kingdom), beneficiary owner – Alexander Yamnitsky, owns 19.71% of share capital;
- **Amber Trust II S.C.A.** (Luxembourg), investment fund, owns 17.67% of share capital;
- **SOLO Investīcijas IT SIA** (Latvia), beneficiary owner – Jānis Strods, owns 10.20% of share capital;
- **EUROTRAIL SIA** (Latvia), beneficiary owner – Kaspars Viškints, owns 10.96% of share capital;
- **Whitebarn SIA** (Latvia), beneficiary owner – Andris Putāns, owns 10.96% of share capital;
- **KRM Serviss SIA** (Latvia), beneficiary owner – Egons Mednis, owns 10.72% of share capital.

Given such shareholder structure there is no single controlling party. The Issuer has no knowledge of any agreements, execution of which could lead to changes in the Issuer's shareholders' structure.

16. Financial information

Information, which is disclosed in this section of the Base Prospectus, is taken from the Issuer's consolidated financial reports that are audited and approved by the Issuer's management as well as consolidated unaudited financial statements of the Issuer. The audited annual reports and unaudited interim reports are prepared according to the International Financial Reporting Standards (IFRS), which are adopted in the European Union.

Issuer's consolidated audited annual report for the year ended 31 December 2014 (Annex A) contains a typo. The text in the header of the page 10 is "Consolidated financial statements for the year ended 31 December 2013", where the correct header should be "Consolidated financial statements for the year ended 31 December 2014".

Issuer's unaudited consolidated financial statements for 6 months ended 30 June 2016 (Annex C) were prepared according to International Accounting Standard No 34.

16.1. Consolidated income statement

Table 11 – Issuer's consolidated audited income statement for 2012-2015 and consolidated unaudited results for 1H 2015 and 1H 2016, USD thsd.

	2012	2013	2014	2015	1H 2015 (unaudited)	1H 2016 (unaudited)
Sale of goods	1 088 752	1 175 791	1 292 204	1 264 020	514 388	541 515
Cost of goods	(1 047 365)	(1 128 184)	(1 252 589)	(1 205 935)	(489 109)	(516 111)
Gross profit	**41 387**	**47 607**	**39 615**	**58 085**	**25 279**	**25 404**
Selling and distribution costs	(5 501)	(4 853)	(5 008)	(4 427)	(2 214)	(2 424)
Administrative expenses	(15 736)	(17 559)	(20 136)	(19 609)	(9 177)	(10 771)
Other operating income	770	63	236	1 609	213	210
Other operating expenses	(491)	(613)	(12 190)	(725)	(82)	(2 388)
Operating profit	**20 429**	**24 645**	**2 517**	**34 933**	**14 019**	**10 031**
Finance income	100	89	481	549	189	203
Finance costs	(2 445)	(4 913)	(8 035)	(9 148)	(4 887)	(5 101)
Finance income/(costs) – net	(2 345)	(4 824)	(7 554)	(8 599)	**(4 698)**	**(4 898)**
Profit before income tax	**18 084**	**19 821**	**(5 037)**	**26 334**	9321	5133
Income tax expense	(1 157)	(2 608)	(2 054)	(4 493)	(615)	(809)
Profit for the period	**16 927**	**17 213**	**(7 091)**	**21 841**	**8 706**	**4 324**
Other comprehensive income to tbe reclassified to profit or loss in subsequent periods						
Exchange differences on translation of foreign operations	223	1 793	(7 564)	(7 317)	(5 769)	2 086
Total comprehensive income to tbe reclassified to profit or loss in subsequent periods for the year	**17 150**	**19 006**	**(14 655)**	**14 524**	**2 937**	**6 410**

Income statement items "Cost of sales" and "Selling and distribution costs" for 2014 were restated in 2015. As per audited annual report for year 2014 "Cost of sales" amounted to USD 1,251,912 thousand and "Selling and distribution costs" amounted to USD 5,685 thousand.

16.2.Balance sheet

Table 12 – Issuer's consolidated balance sheet for 2012-2015 and consolidated unaudited results for 1Q 2016, USD thsd.

	31.12.2012	31.12.2013	31.12.2014	31.12.2015	30.06.2016
ASSETS					
Non-current assets					
Long term loans	123	2 040	2 000	3 730	3 799
Property, plant and equipment	1 166	1 216	1 133	1 479	2 144
Intangible assets	109	95	139	438	440
Total non-current assets	**1 398**	**3 351**	**3 272**	**5 647**	**6 383**
Current assets					
Inventories	182 396	210 106	237 593	222 146	243 774
Current tax receivables	204	651	706	2 471	3 611
Trade and other receivables	128 308	148 380	111 756	116 569	85 135
Prepaid expenses	633	303	284	-	-
Derivative financial instruments	-	-	370	2 666	86
Cash deposits	380	475	475	-	660
Cash and cash equivalents	9 670	30 219	38 197	31 958	23 942
Total current assets	**321 591**	**390 134**	**389 381**	**375 810**	357 208
Total assets	**322 989**	**393 485**	**392 653**	**381 457**	**363 591**
EQUITY					
Issued capital	11 114	11 114	11 114	11 114	11 114
Share premium	5 996	5 996	5 996	5 996	5 996
Translation reserve	18	19	(5 185)	(11 884)	(9 913)
Retained earnings	77 638	81 560	66 573	79 114	75 980
Equity attributable to equity holders of the parent company	**94 766**	**98 689**	**78 498**	**84 340**	**83 177**
No-controlling interests	4 513	9 522	8 593	13 499	12 002
Total equity	**99 279**	**108 211**	**87 091**	**97 839**	**95 179**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	1 072	1 145	71	8 778	8 929
Current liabilities					
Trade and other payables	143 681	170 689	228 650	195 599	198 249
Interest-bearing loans and borrowings	78 314	112 885	74 783	76 840	57 975
Income tax payable	474	374	1 066	2 401	2 912
Provisions	169	181	163	-	-
Derivative financial instruments	-	-	829	-	347
Total liabilities	**223 710**	**285 274**	**305 562**	**283 618**	**268 412**
Total equity and liabilities	**322 989**	**393 485**	**392 653**	**381 457**	**363 591**

16.3.Consolidated statement of changes in equity

Table 13 – Issuer's consolidated statement of changes in equity 2014- 6 months 2016, USD thsd.

	Share capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
Balance at 1 January 2014	**11 114**	**5 996**	**79 783**	**1 796**	**98 689**	**9 522**	**108 211**
Other comprehensive loss	-	-	-	(6 981)	(6 981)	(583)	(7 564)
Profit (loss) for the period	-	-	(8 270)	-	(8 270)	1 179	(7 091)
Total comprehensive income for 2014	**-**	**-**	**(8 270)**	**(6 981)**	**(15 251)**	**596**	**(14 655)**
Dividend	-	-	(4 940)	-	(4 940)	(1 525)	(6 465)
Balance at 31 December 2014	**11 114**	**5 996**	**66 573**	**(5 185)**	**78 498**	**8 593**	**87 091**
Balance at 1 January 2015	**11 114**	**5 996**	**66 573**	**(5 185)**	**78 498**	**8 593**	**87 091**
Other comprehensive loss	-	-	-	(6 699)	(6 699)	(618)	(7 317)
Profit for the year	-	-	12 541	-	12 541	9 300	21 841
Total comprehensive income for 2015	**-**	**-**	**12 541**	**(6 699)**	**5 842**	**8 682**	**14 524**
Dividend	-	-	-	-	-	(3 776)	(3 776)
Balance at 31 December 2015	**11 114**	**5 996**	**79 114**	**(11 884)**	**84 340**	**13 499**	**97 839**
Balance at 1 January 2016	**11 114**	**5 996**	**79 114**	**(11 884)**	**84 340**	**13 499**	**97 839**
Currency translation differences	-	-	-	1 971	1 971	115	2 086
Profit for the period	-	-	2 966	-	2 966	1 358	4 324
Total recognized income and expense for 2016	-	-	2 966	1 971	4 937	1 473	6 410
Dividend relation to prior years	-	-	(6 100)	-	(6 100)	(2 970)	(9 070)
Balance at 30 June 2016	**11 114**	**5 996**	**75 980**	**(9 913)**	**83 177**	**12 002**	**95 179**

16.4.Consolidated statement of cash flow

Table 14 – Issuer's consolidated audited cash flow for 2012-2015 and consolidtaed unaudited results for 1Q 2016, USD thsd.

	2012	2013	2014	2015	1H 2015 (unaudited)	1H 2016 (unaudited)
Operating activities						
Profit / (loss) before tax from continuing operations	18 084	19 821	(5 037)	26 334	9 321	5 133
Non-cash adjustments to reconcile profit before tax to net cash flows						
Depreciation and impairment of property, plant and equipment	436	535	543	632	252	363
Amortisation and impairment of intangible assets	44	38	31	14	-	-
(Profit)/ loss on disposal of property, plant and equipment	-	(89)	-	-	-	-
Finance income	(100)	4 913	(481)	(549)	(1 538)	(203)
Finance costs	2 445	-	8 035	9 148	4 887	5 101
Fair value (gains) losses on derivative financial	-	-	459	(3 125)	(669)	2 927
Movements in provisions and allowances	(4)	12	(18)	(163)	-4	-
Working capital adjustments:						
(Increase)/ decrease in trade and other receivables and prepaid expenses	(31 288)	(19 742)	37 296	(6 294)	(52 438)	30 294
(Increase)/ decrease in inventories	(45 480)	(27 710)	(27 487)	15 447	85 982	(21 628)
Increase/ (decrease) in trade and other payables	41 063	31 250	49 382	(40 071)	(43 606)	2 688
Interest received	100	89	481	549	1 538	203
Income tax paid	(1 039)	(3 155)	(1 417)	(3 158)	(1 852)	(809)
Net cash flows from operating activities	**(15 739)**	**5 962**	**61 787**	**(1 236)**	**1 873**	**24 070**
Investing activities						
Proceeds from sale of property, plant and equity	-	2	33	-	20	53
Purchases of property, plant and equipment	(875)	(598)	(603)	(804)	(471)	(1 030)
Purchases of intangible assets	(13)	(22)	(87)	(333)	-	-
Proceeds from cash deposits	-	(95)	-		436	(660)
Loans issued	-	(1 917)	-	(3 730)	-	-
Loans repaid	41	-	40	2 000	-	-
Acquisition of non-controlling interests	(248)	-	-	-	-	-
Net cash flows (used) / from in investing activities	**(1 095)**	**(2 630)**	**(617)**	**(2 867)**	**(15)**	**(1 637)**
Financing activities						
Bank credit lines and bonds received	23 487	34 644	3 994	36 749	(17 382)*	(18 714)*
Repayments of bank credit lines	(3 096)	-	(43 170)	(25 985)	-	-
Interest paid	(2 445)	(4 913)	(8 035)	(9 148)	(4 887)	(5 101)
Dividends paid to equity holders of the parent	(3 341)	(12 440)	(4 456)	(451)	(451)	(3 664)
Dividends paid to non-controlling interests	-	(74)	(1 525)	(3 776)	(845)	(2 970)
Net cash flows (used) / from in financing activities	**15 585**	**17 217**	**(53 192)**	**(2 611)**	**(24 234)**	**(30 448)**
Net increase/(decrease) in cash and cash equivalents	**(1 249)**	**20 549**	**7 978**	**(6 714)**	**(21 707)**	**(8 016)**
Cash and cash equivalents at beginning of the year	10 919	9 670	30 694	38 672	38 197	31 958
Cash and cash equivalents at beginning of the year	**9 670**	**30 219**	**38 672**	**31 958**	**16 490**	**23 942**

* - Proceeds from bank overdrafts, net

17. Documents on display

Copies of the following documents during validity of this Base Prospectus are available at the legal address of the Issuer at Toma street 4, Riga, LV-1003, Latvia on weekdays within the limits of normal business hours:

- Articles of Association of the Issuer;
- ELKO Grupa AS Audited consolidated financial statements for the year ended 31 December 2014
- ELKO Grupa AS Audited consolidated financial statements for the year ended 31 December 2015
- ELKO Grupa AS Unaudited consolidated financial statements for 6 months ended 30 June 2016

18. Cross-reference list

A cross-reference list below identifies the pages where each item of Annexes IV and V of the Commission Regulation (EC) No. 809/2004 can be found in the Base Prospectus.

	Items of Annexes IV of the Commission Regulation (EC) No. 809/2004	Page number
1.	**PERSONS RESPONSIBLE**	
1.1.	All persons responsible for the information given in the Registration Document and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office.	44
1.2.	A declaration by those responsible for the registration document that, having taken all reasonable care to ensure that such is the case the information contained in the registration document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of the registration document that, having taken all reasonable care to ensure that such is the case, the information contained in the part of the registration document for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.	44
2.	**STATUTORY AUDITORS**	
2.1.	Names and addresses of the issuer's auditors for the period covered by the historical financial information (together with their membership in a professional body).	59
2.2.	If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, details if material.	N/A
3.	**SELECTED FINANCIAL INFORMATION**	
3.1.	Selected historical financial information regarding the issuer, presented, for each financial year for the period covered by the historical financial information, and any subsequent interim financial period, in the same currency as the financial information. The selected historical financial information must provide key figures that summarise the financial condition of the issuer.	72-75
3.2.	If selected financial information for interim periods is provided, comparative data from the same period in the prior financial year must also be provided, except that the requirement for comparative balance sheet data is satisfied by presenting the year end balance sheet information.	72-75
4.	**RISK FACTORS** Prominent disclosure of risk factors that may affect the issuer's ability to fulfil its obligations under the securities to investors in a section headed "Risk Factors".	39-43
5.	**INFORMATION ABOUT THE ISSUER**	
5.1.	**<u>History and development of the Issuer:</u>**	
5.1.1.	the legal and commercial name of the issuer;	59
5.1.2.	the place of registration of the issuer and its registration number;	59
5.1.3.	the date of incorporation and the length of life of the issuer, except where indefinite;	59
5.1.4.	the domicile and legal form of the issuer, the legislation under which the issuer operates, its country of incorporation, and the address and telephone number of its registered office (or principal place of business if different from its registered office);	59
5.1.5.	any recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency.	N/A
5.2.	**<u>Investments:</u>**	
5.2.1.	A description of the principal investments made since the date of the last published financial statements.	60
5.2.2.	Information concerning the issuer's principal future investments, on which its management bodies have already made firm commitments.	N/A
5.2.3.	Information regarding the anticipated sources of funds needed to fulfil commitments referred to in item 5.2.2..	N/A
6.	**BUSINESS OVERVIEW**	

6.1.	**Principal activities:**	
6.1.1.	A description of the issuer's principal activities stating the main categories of products sold and/or services performed; and	61-65
6.1.2.	an indication of any significant new products and/or activities.	61-65
6.2.	**Principal markets** A brief description of the principal markets in which the issuer competes.	61
6.3.	The basis for any statements made by the issuer regarding its competitive position.	62
7.	**ORGANISATIONAL STRUCTURE**	
7.1.	If the issuer is part of a group, a brief description of the group and of the issuer's position within it.	68
7.2.	If the issuer is dependent upon other entities within the group, this must be clearly stated together with an explanation of this dependence.	N/A
8.	**TREND INFORMATION**	
8.1.	Include a statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements. In the event that the issuer is unable to make such a statement, provide details of this material adverse change.	47
8.2.	Information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects for at least the current financial year.	67
9.	**PROFIT FORECASTS AND ESTIMATES** If an issuer chooses to include a profit forecast or a profit estimate, the registration document must contain the information items 9.1 and 9.2:	N/A
9.1.	A statement setting out the principal assumptions upon which the issuer has based its forecast, or estimate. There must be a clear distinction between assumptions about factors which the members of the administrative, management or supervisory bodies can influence and assumptions about factors which are exclusively outside the influence of the members of the administrative, management or supervisory bodies; the assumptions must be readily understandable by investors, be specific and precise and not relate to the general accuracy of the estimates underlying the forecast.	N/A
9.2.	A report prepared by independent accountants or auditors must be included stating that in the opinion of the independent accountants or auditors the forecast or estimate has been properly compiled on the basis stated and that the basis of accounting used for the profit forecast or estimate is consistent with the accounting policies of the issuer.	N/A
9.3.	The profit forecast or estimate must be prepared on a basis comparable with the historical financial information.	N/A
10.	**ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES**	
10.1	Names, business addresses and functions in the issuer of the following persons, and an indication of the principal activities performed by them outside the issuer where these are significant with respect to that issuer: (a) members of the administrative, management or supervisory bodies; (b) partners with unlimited liability, in the case of a limited partnership with a share capital.	69-70
10.2.	**Administrative, Management, and Supervisory bodies conflicts of interests** Potential conflicts of interests between any duties to the issuing entity of the persons referred to in item 10.1 and their private interests and or other duties must be clearly stated. In the event that there are no such conflicts, make a statement to that effect.	70
11.	**BOARD PRACTISES**	
11.1	Details relating to the issuer's audit committee, including the names of committee members and a summary of the terms of reference under which the committee operates.	70
11.2.	A statement as to whether or not the issuer complies with its country's of incorporation corporate governance regime(s). In the event that the issuer does not comply with such a regime, a statement to that effect must be included together with an explanation regarding why the issuer does not comply with such regime.	70
12.	**MAJOR SHAREHOLDERS**	
12.1.	To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control, and describe the measures in place to ensure that such control is not abused.	71

12.2.	A description of any arrangements, known to the issuer, the operation of which may at a subsequent date result in a change in control of the issuer.	71
13.	**FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES**	
13.1.	**Historical Financial Information** Audited historical financial information covering the latest 2 financial years (or such shorter period that the issuer has been in operation), and the audit report in respect of each year. Such financial information must be prepared according to Regulation (EC) No 1606/2002, or if not applicable to a Member States national accounting standards for issuers from the Community. For third country issuers, such financial information must be prepared according to the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No 1606/2002 or to a third country's national accounting standards equivalent to these standards. If such financial information is not equivalent to these standards, it must be presented in the form of restated financial statements. The most recent year's historical financial information must be presented and prepared in a form consistent with that which will be adopted in the issuer's next published annual financial statements having regard to accounting standards and policies and legislation applicable to such annual financial statements. If the issuer has been operating in its current sphere of economic activity for less than one year, the audited historical financial information covering that period must be prepared in accordance with the standards applicable to annual financial statements under the Regulation (EC) No 1606/2002, or if not applicable to a Member States national accounting standards where the issuer is an issuer from the Community. For third country issuers, the historical financial information must be prepared according to the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No 1606/2002 or to a third country's national accounting standards equivalent to these standards. This historical financial information must be audited. If the audited financial information is prepared according to national accounting standards, the financial information required under this heading must include at least: (a) balance sheet; (b) income statement; (c) cash flow statement; and (d) accounting policies and explanatory notes The historical annual financial information must have been independently audited or reported on as to whether or not, for the purposes of the registration document, it gives a true and fair view, in accordance with auditing standards applicable in a Member State or an equivalent standard.	72-75, Appendices
13.2.	**Financial statements** If the issuer prepares both own and consolidated financial statements, include at least the consolidated financial statements in the registration document.	72-75, Appendices
13.3.	**Auditing of historical annual financial information**	
13.3.1	A statement that the historical financial information has been audited. If audit reports on the historical financial information have been refused by the statutory auditors or if they contain qualifications or disclaimers, such refusal or such qualifications or disclaimers must be reproduced in full and the reasons given.	72-75, Appendices
13.3.2	An indication of other information in the registration document which has been audited by the auditors.	N/A
13.3.3	Where financial data in the registration document is not extracted from the issuer's audited financial statements state the source of the data and state that the data is un-audited.	N/A
13.4.	**Age of latest financial information**	
13.4.1	The last year of audited financial information may not be older than 18 months from the date of the registration document.	72-75, Appendices
13.5.	**Interim and other financial information**	
13.5.1	If the issuer has published quarterly or half yearly financial information since the date of its last audited financial statements, these must be included in the registration document. If the quarterly or half yearly financial information has been reviewed or audited the audit or review report must also be included. If the quarterly or half yearly financial information is un-audited or has not been reviewed state that fact.	72-75, Appendices
13.5.2	If the registration document is dated more than nine months after the end of the last audited financial year, it must contain interim financial information, covering at least	72-75,

	the first six months of the financial year. If the interim financial information is un-audited state that fact. The interim financial information must include comparative statements for the same period in the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the years end balance sheet.	Appendices
13.6.	**Legal and arbitration proceedings** Information on any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the issuer and/or group's financial position or profitability, or provide an appropriate negative statement.	47
13.7.	**Significant change in the issuer's financial or trading position** A description of any significant change in the financial or trading position of the group which has occurred since the end of the last financial period for which either audited financial information or interim financial information have been published, or an appropriate negative statement.	47
14.	**ADDITIONAL INFORMATION**	
14.1	**Share Capital**	
14.1.1	The amount of the issued capital, the number and classes of the shares of which it is composed with details of their principal characteristics, the part of the issued capital still to be paid up, with an indication of the number, or total nominal value, and the type of the shares not yet fully paid up, broken down where applicable according to the extent to which they have been paid up.	59
14.2.	**Memorandum and Articles of Association.**	
14.2.1	The register and the entry number therein, if applicable, and a description of the issuer's objects and purposes and where they can be found in the memorandum and articles of association.	59
15.	**MATERIAL CONTRACTS** A brief summary of all material contracts that are not entered into in the ordinary course of the issuer's business, which could result in any group member being under an obligation or entitlement that is material to the issuer's ability to meet its obligation to security holders in respect of the securities being issued.	60
16.	**THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST**	
16.1.	Where a statement or report attributed to a person as an expert is included in the Registration Document, provide such person's name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part of the Registration Document.	47
16.2.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, the issuer shall identify the source(s) of the information	47
17.	**DOCUMENTS ON DISPLAY** A statement that for the life of the registration document the following documents (or copies thereof), where applicable, may be inspected: (a) the memorandum and articles of association of the issuer; (b) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the issuer's request any part of which is included or referred to in the registration document; (c) the historical financial information of the issuer or, in the case of a group, the historical financial information of the issuer and its subsidiary undertakings for each of the two financial years preceding the publication of the registration document. An indication of where the documents on display may be inspected, by physical or electronic means.	76

	Items of Annexes V of the Commission Regulation (EC) No. 809/2004	Page number
1.	**PERSONS RESPONSIBLE**	
1.1.	All persons responsible for the information given in the prospectus and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office.	44
1.2.	A declaration by those responsible for the prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in the prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of the prospectus that the information contained in the part of the prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.	44
2.	**RISK FACTORS**	
2.1.	Prominent disclosure of risk factors that are material to the securities being offered and/or admitted to trading in order to assess the market risk associated with these securities in a section headed "Risk Factors".	39-43
3.	**KEY INFORMATION**	
3.1.	**Interest of natural and legal persons involved in the issue/offer** A description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest.	45
3.2.	**Reasons for the offer and use of proceeds** Reasons for the offer if different from making profit and/or hedging certain risks. Where applicable, disclosure of the estimated total expenses of the issue/offer and the estimated net amount of the proceeds. These expenses and proceeds shall be broken into each principal intended use and presented by order of priority of such uses. If the issuer is aware that the anticipated proceeds will not be sufficient to fund all the proposed uses, state the amount and sources of other funds needed.	45
4.	**INFORMATION CONCERNING THE SECURITIES TO BE OFFERED/ ADMITTED TO TRADING**	
4.1.	A description of the type and the class of the securities being offered and/or admitted to trading, including the ISIN (International Security Identification Number) or other such security identification code.	48
4.2.	Legislation under which the securities have been created.	48
4.3.	An indication of whether the securities are in registered form or bearer form and whether the securities are in certificated form or book-entry form. In the latter case, name and address of the entity in charge of keeping the records.	48
4.4.	Currency of the securities issue.	48
4.5.	Ranking of the securities being offered and/or admitted to trading, including summaries of any clauses that are intended to affect ranking or subordinate the security to any present or future liabilities of the issuer	48
4.6.	A description of the rights attached to the securities, including any limitations of those rights, and procedure for the exercise of those rights.	48-54
4.7.	The nominal interest rate and provisions relating to interest payable. — The date from which interest becomes payable and the due dates for interest. — The time limit on the validity of claims to interest and repayment of principal Where the rate is not fixed, description of the underlying on which it is based and of the method used to relate the two and an indication where information about the past and the further performance of the underlying and its volatility can be obtained. — A description of any market disruption or settlement disruption events that affect the underlying — Adjustment rules with relation to events concerning the underlying — Name of the calculation agent If the security has a derivative component in the interest payment, provide a clear and comprehensive explanation to help investors understand how the value of their	49-50

	investment is affected by the value of the underlying instrument (s), especially under the circumstances when the risks are most evident.	
4.8.	Maturity date and arrangements for the amortization of the loan, including the repayment procedures. Where advance amortization is contemplated, on the initiative of the issuer or of the holder, it shall be described, stipulating amortization terms and conditions	50-51
4.9.	An indication of yield. Describe the method whereby that yield is calculated in summary form	50
4.10.	Representation of debt security holders including an identification of the organisation representing the investors and provisions applying to such representation. Indication of where the public may have access to the contracts relating to these forms of representation	53
4.11.	In the case of new issues, a statement of the resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued.	N/A
4.12.	In the case of new issues, the expected issue date of the securities.	N/A
4.13.	A description of any restrictions on the free transferability of the securities.	48
4.14.	In respect of the country of registered office of the issuer and the country(ies) where the offer being made or admission to trading is being sought: — Information on taxes on the income from the securities withheld at source; — Indication as to whether the issuer assumes responsibility for the withholding of taxes at the source.	51, 57-58
5.	**TERMS AND CONDITIONS OF THE OFFER**	
5.1.	**Conditions, offer statistics, expected timetable and action required to apply for the offer**	
5.1.1.	Conditions to which the offer is subject.	55-56
5.1.2.	Total amount of the issue/offer; if the amount is not fixed, description of the arrangements and time for announcing to the public the definitive amount of the offer.	48
5.1.3.	The time period, including any possible amendments, during which the offer will be open and description of the application process.	55
5.1.4.	A description of the possibility to reduce subscriptions and the manner for refunding excess amount paid by applicants.	55
5.1.5.	Details of the minimum and/or maximum amount of application, (whether in number of securities or aggregate amount to invest).	55
5.1.6.	Method and time limits for paying up the securities and for delivery of the securities.	55-56
5.1.7.	A full description of the manner and date in which results of the offer are to be made public.	56
5.1.8.	The procedure for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.	N/A
5.2.	**Plan of distribution and allotment**	
5.2.1.	The various categories of potential investors to which the securities are offered. If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.	55
5.2.2.	Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made.	55
5.3.	**Pricing**	
5.3.1.	An indication of the expected price at which the securities will be offered or the method of determining the price and the process for its disclosure. Indicate the amount of any expenses and taxes specifically charged to the subscriber or purchaser.	49, 55
5.4.	**Placing and Underwriting**	
5.4.1.	Name and address of the co-ordinator(s) of the global offer and of single parts of the offer and, to the extend known to the issuer or to the offeror, of the placers in the various countries where the offer takes place.	45
5.4.2.	Name and address of any paying agents and depository agents in each country.	N/A
5.4.3.	Name and address of the entities agreeing to underwrite the issue on a firm commitment basis, and name and address of the entities agreeing to place the issue without a firm commitment or under “best efforts” arrangements. Indication of the material features of	49

	the agreements, including the quotas. Where not all of the issue is underwritten, a statement of the portion not covered. Indication of the overall amount of the underwriting commission and of the placing commission.	
5.4.4.	When the underwriting agreement has been or will be reached.	N/A
6.	**ADMISSION TO TRADING AND DEALING ARRANGEMENTS**	
6.1.	An indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in question. This circumstance must be mentioned, without creating the impression that the admission to trading will necessarily be approved. If known, give the earliest dates on which the securities will be admitted to trading.	52
6.2.	All the regulated markets or equivalent markets on which, to the knowledge of the issuer, securities of the same class of the securities to be offered or admitted to trading are already admitted to trading.	52
6.3.	Name and address of the entities which have a firm commitment to act as intermediaries in secondary trading, providing liquidity through bid and offer rates and description of the main terms of their commitment.	N/A
7.	**ADDITIONAL INFORMATION**	
7.1.	If advisors connected with an issue are mentioned in the Securities Note, a statement of the capacity in which the advisors have acted.	45
7.2.	An indication of other information in the Securities Note which has been audited or reviewed by statutory auditors and where auditors have produced a report. Reproduction of the report or, with permission of the competent authority, a summary of the report.	N/A
7.3.	Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such persons' name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part of the Securities Note.	47
7.4.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information.	47
7.5.	Credit ratings assigned to an issuer or its debt securities at the request or with the cooperation of the issuer in the rating process. A brief explanation of the meaning of the ratings if this has previously been published by the rating provider.	53

19. Annexes

Annex A – ELKO Grupa AS Audited consolidated financial statements for the year ended 31 December 2014

Annex B – ELKO Grupa AS Audited consolidated financial statements for the year ended 31 December 2015

Annex C – ELKO Grupa AS Unaudited consolidated financial statements for 6 months ended 30 June 2016

Annex D – Form of the Final Terms

Grow to succeed. ELKO Group.

ELKO GRUPA AS

Consolidated Financial Statements

For the year ended 31 December 2014

Structure

Grow to succeed. ELKO Group.

ELKO GRUPA AS

Consolidated Financial Statements

For the year ended 31 December 2015

Structure

General information

Group name	ELKO GRUPA AS
Legal status of the Group	Joint Stock Company
Unified registration number, place and date of registration	4 000 312 956 Riga, 14 May, 1993 Re-registration in Commercial register 2 December, 2003 with re-registration number 4 000 312 956 4
Registered office	4 Toma street Riga LV-1003 Latvia
Shareholders	Ashington Business Inc. Limited (1,360,235 shares), United Kingdom Solsbury Inventions Limited (1,355,383 shares), United Kingdom Amber Trust II S.C.A. (1,214,898 shares), Luxemburgh Eurotrail SIA (753,833 shares), Latvia Whitebarn SIA (753,833 shares), Latvia KRM Serviss SIA (737,319 shares), Latvia Solo Investīcijas IT SIA (701,289 shares), Latvia
Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member
Board Members	Egons Mednis – Chairman of the Board with powers to represent the Group individually, President Jānis Casno – Board Member with representation powers jointly with another Board Member, Chief Executive Officer till 06.01.2015 Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Financial Officer till 06.01.2015 Egons Bušs - Board Member with representation powers jointly with another Board Member, Chief Information Technology Officer Aleksandrs Orlovs – Board Member with representation power jointly with another Board Member, Distribution Director Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Executive Officer from 06.01.2015 Māris Būmanis – Board Member with representation powers jointly with another Board Member, Chief Financial Officer from 06.01.2015
Reporting year	1 January - 31 December, 2015

MANAGEMENT REPORT

Business activities

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

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

Financial analysis

Despite challenging geopolitical situation in CIS region, the Company in 2015 reached revenue of 1,264 million USD, which was 2% decrease comparing to 2014. Despite overall market slowdown in ELKO's main market – CIS region the Company showed it's ability to continuously expand its product portfolio and geographical reach at the same time maintaining effective and cost efficient distribution channels.

Gross profit for 2015 was 58,1 million USD, which was considerable increase comparing to 39,6 million USD in 2014. The increase in gross margin is mainly related to Company's ability to capitalize on its long term relationships with vendors and clients by providing value added services with adequate pricing strategy.

The net result of the Company for 2015 was 21,8 million USD comparing to net loss of 7.1 million USD in 2014. Despite challenging market conditions, the Company has proven its status as trusted long term partner to provide good quality services to its vendors and clients, which in line with efficient cost structure and continuous improvement in risk management policies has resulted in positive net profit.

Significant events during reporting period

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

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

AS ELKO GRUPA structure

AS ELKO Grupa has shareholding in following subsidiaries: ELKO Latvija SIA, ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., WESTech CZ s.r.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine TOB, Alma OOO, Pruvia SIA and ELKO Kazakhstan Limited.

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

Financial risk management

Multi-currency risk

ELKO operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro and Russian ruble. Foreign exchange risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments in various currencies. The purchase of goods from vendors is predominantly done in US dollars and the sales from the Company to subsidiaries are done in US dollars. The sales to customers in Latvia, Estonia and Lithuania are carried out in the respective local currencies.

The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – US dollar. The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars. The monitors the open foreign currency positions and if necessary acquires adequate financing instruments to minimize the risk.

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.

MANAGEMENT REPORT (continued)

Credit risk
Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance and conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilization of credit limits is regularly monitored.

Inventories
The Company determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis decreases the need to establish provisions for obsolete items. The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of decline of the market prices for the goods at the Company's warehouse or that are already ordered.

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

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

Prospects
The Company's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Company has cooperation partners.

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

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

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

Egons Mednis
Chairman of the Board,
President
Riga, 22 April, 2016

Consolidated financial statements

Consolidated statement of comprehensive income

	Note	2015 USD '000	2014 USD '000
Sale of goods	6; 7	1,264,020	1,292,204
Cost of sales	8	(1,205,935)	(1,252,589)
Gross profit		**58,085**	**39,615**
Other operating income	9.1	1,609	236
Selling and distribution costs	8	(4,427)	(5,008)
Administrative expenses	8	(19,609)	(20,136)
Other operating expenses	9.2	(725)	(12,190)
Operating profit		**34,933**	**2,517**
Finance income		549	481
Finance costs		(9,148)	(8,035)
Finance income/ (costs) – net	10	(8,599)	(7,554)
Profit/(loss) before tax from continuing operations		**26,334**	**(5,037)**
Income tax expense	12	(4,493)	(2,054)
Profit/(loss) for the year from continuing operations		**21,841**	**(7,091)**
Attributable to:			
Equity holders of the parent		12,541	(8,270)
Non-controlling interests		9,300	1,179
		21,841	**(7,091)**
Basic and diluted earnings per ordinary share (USD per share)	13	1.28	(1.20)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		(7,317)	(7,564)
Total comprehensive loss		**14,524**	**(14,655)**
Attributable to:			
Equity holders of the Parent Company		5,842	(15,251)
Non-controlling interests		8,682	596
		14,524	**(14,655)**

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

Egons Mednis
Chairman of the Board
22 April 2016

Consolidated statement of financial position

	Note	31.12.2015 USD '000	31.12.2014 USD '000
ASSETS			
Non-current assets			
Intangible assets	15	438	139
Property, plant and equipment	16	1,479	1,133
Long term loans	17	3,730	2,000
		5,647	**3,272**
Current assets			
Inventories	18	222,146	237,593
Current income tax receivable	12	2,471	706
Trade and other receivables	19	116,569	111,756
Prepaid expenses		-	284
Derivative financial instruments	25	2,666	370
Cash deposits	20	-	475
Cash and cash equivalents	20	31,958	38,197
		375,810	**389,381**
Total assets		**381,457**	**392,653**
EQUITY			
Issued capital	21	11,114	11,114
Share premium	21	5,996	5,996
Translation reserve	21	(11,884)	(5,185)
Retained earnings		79,114	66,573
Equity attributable to equity holders of the		**84,340**	**78,498**
Non-controlling interests		13,499	8,593
Total equity		**97,839**	**87,091**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	22	8,778	71
		8,778	**71**
Current liabilities			
Trade and other payables	23	195,599	228,650
Interest-bearing loans and borrowings	22	76,840	74,783
Income tax payable	12	2,401	1,066
Provisions	24	-	163
Derivative financial instruments	25	-	829
		274,840	**305,491**
Total liabilities		**283,618**	**305,562**
Total equity and liabilities		**381,457**	**392,653**

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

Egons Mednis
Chairman of the Board
22 April 2016

Consolidated statement of changes in equity

	Attributable to equity holders of the Parent Company						
	Issued capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2014	**11,114**	**5,996**	**79,783**	**1,796**	**98,689**	**9,522**	**108,211**
Other comprehensive loss	-	-	-	(6,981)	(6,981)	(583)	(7,564)
Profit (loss) for the year	-	-	(8,270)	-	(8,270)	1,179	(7,091)
Total comprehensive income for 2014	**-**	**-**	**(8,270)**	**(6,981)**	**(15,251)**	**596**	**(14,655)**
Dividend	-	-	(4,940)	-	(4,940)	(1,525)	(6,465)
Balance at 31 December 2014	**11,114**	**5,996**	**66,573**	**(5,185)**	**78,498**	**8,593**	**87,091**
Balance at 1 January 2015	**11,114**	**5,996**	**66,573**	**(5,185)**	**78,498**	**8,593**	**87,091**
Other comprehensive loss	-	-	-	(6,699)	(6,699)	(618)	(7,317)
Profit for the year	-	-	12,541	-	12,541	9,300	21,841
Total comprehensive income for 2015	**-**	**-**	**12,541**	**(6,699)**	**5,842**	**8,682**	**14,524**
Dividend			-		-	(3,776)	(3,776)
Balance at 31 December 2015	**11,114**	**5,996**	**79,114**	**(11,884)**	**84,340**	**13,499**	**97,839**

Retained earnings are USD 79,114 thousand (2014: USD 66,573 thousand), of which USD 77 thousand (2014: USD 77 thousand) are statutory reserves and are not a subject to distribution in dividends.

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

Egons Mednis
Chairman of the Board
22 April 2016

Consolidated statement of cash flows

	Note	2015 USD'000	2014 USD'000
Operating activities			
Profit/(Loss) before tax from continuing operations		26,334	(5,037)
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation of property, plant and equipment	16	632	543
Amortisation of intangible assets	15	14	31
Finance income	10	(549)	(481)
Finance costs	10	9,148	8,035
Fair value (gains) losses on derivative financial	25	(3,125)	459
Movements in provisions and allowances		(163)	(18)
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables and prepaid expenses		(6,294)	37,296
Decrease/(Increase) in inventories	18	15,447	(27,487)
Increase/(Decrease) in trade and other payables		(40,071)	49,382
Interest received		549	481
Income tax paid		(3,158)	(1,417)
Net cash flows (used in) / from operating activities		**(1,236)**	**61,787**
Investing activities			
Proceeds from sale of property, plant and equity		-	33
Purchases of property, plant and equipment	16	(804)	(603)
Purchases of intangible assets	15	(333)	(87)
Loans issued	17	(3,730)	-
Repayments of loans given		2,000	40
Proceeds from cash deposits	20	-	-
Net cash flows (used in) / from investing activities		**(2,867)**	**(617)**
Financing activities			
Bank credit lines and bonds received		36,749	3,994
Repayments of bank credit lines		(25,985)	(43,170)
Interest paid		(9,148)	(8,035)
Dividends paid to equity holders of the parent		(451)	(4,456)
Dividends paid to non-controlling interests		(3,776)	(1,525)
Net cash flows (used in) / from financing activities		**(2,611)**	**(53,192)**
Net increase/(decrease) in cash and cash equivalents		**(6,714)**	**7,978**
Cash and cash equivalents at beginning of the year		38,672	30,694
Cash and cash equivalents at end of the year	**20**	**31,958**	**38,672**

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

Notes to the consolidated financial statements

1 General information

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

The Parent Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Toma str, 4, Riga, LV-1003, Latvia. These consolidated financial statements have been prepared by the Management for issue on 22 April 2016 and signed on its behalf by the Chairman of the Board Egons Mednis.

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

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

Name	Country	Participating interest in share capital of subsidiaries	
		31.12.2015	31.12.2014
		%	%
Alma Limited	Russia	100%	100%
ELKO Eesti AS	Estonia	100%	100%
ELKO Kaunas UAB	Lithuania	100%	100%
ELKO Latvija SIA	Latvia	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%
ELKO Trading Switzerland AG	Switzerland	100%	100%
ELKOTech Romania SA	Romania	100%	100%
ELKOTEX d.o.o.	Slovenia	51%	51%
WESTech s.r.o.	Slovakia	51%	51%
ELKO Mobile Limited	Cyprus	51%	51%
ELKO Kazahstan Limited	Kazahstan	100%	100%
ELKO Ukraina TOB[1)]	Ukraine	100%	100%
PRUVIA SIA[1)]	Latvia	100%	100%
Westech CZ s.r.o.[2)]	Czech Republic	26%	26%

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for, derivative financial instruments that have been measured at fair value.
The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015.

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other

Notes to the consolidated financial statements (continued)

2.1 Basis of preparation (continued)

comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. 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 U.S. dollars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional 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 functional 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 consolidaton the assets and liabilities of foreign operations are translated into U.S. dollars 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 consolidaton 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.

Notes to the consolidated financial statements (continued)

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 and issuance of sales invoice.

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

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

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

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

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

2.4 Taxes

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

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

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

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

Notes to the consolidated financial statements (continued)

2.4 Taxes (continued)

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

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

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

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

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

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

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

The corporate income tax rates in the major jurisdiction where the Company is operating are:
Latvia – 15%
Russia - 20%
Ukraine – 18%
Slovakia – 22%
Romania – 16%
Cyprus – 12.5%
Switzerland – 8.5%

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

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 consolidated statement of financial position.

2.5 Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Loans and receivables

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

Derecognition

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

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

IT equipment	2 years
Other	4-5 years

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

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

2.7 Leases

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

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

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

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

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2015 and 2014 the Group had no borrowing costs directy attributable to the acquisition, construction or production of a qualifying asset.

2.9 Intangible assets

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

2.9 Intangible assets (continued)

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

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

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

2.10 Inventories

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

2.11 Impairment of non-financial assets

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

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

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

2.12 Cash and cash equivalents

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

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

2.13 Share capital and dividend distribution

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

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

2.14 Provisions

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

2.15 Warranties

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

2.16 Vendor programs

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

2.17 Pension obligations

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

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

Notes to the consolidated financial statements (continued)

2.18 Going concern

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

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

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

Taking into account that based on the unaudited data the Company is in line with budgeted Q1 sales results the inability to attract additional financing is highly unlikely and even in worst case scenario the possible shortage of available financing would not affect ELKO Group operations to continue as going concern.

These consolidated financial statements for the year ended 31 December 2015 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by European Union

2.19 Changes in accounting policies and disclosures

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

The following new and/or amended IFRSs have been adopted by the AS ELKO GRUPA as of 1 January 2015:

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

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

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

IFRIC Interpretation 21 Levies

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this standard had no effect on the financial statements of the Group.

3 Significant accounting judgments, estimates and assumptions

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

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

3.1 Vendor programs

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

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2015 amounted to USD 24,552 thousand (2014: USD 10,086 thousand) based on the individual vendor agreements.

3.2 Income taxes

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

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

Taxes are summarized in 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.

3.4 Impairment of trade receivables

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

3.5 Warranty provisions

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

3.6 Revenue recognition

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

4 Changes in accounting standarts

4.1 Standards issued but not yet effective

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

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

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

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

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

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

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

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

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

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

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

4.1 Standards issued but not yet effective (continued)

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

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

Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016)

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

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

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

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

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

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

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

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (endorsement deferred indefinitely)

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

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

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

Notes to the consolidated financial statements (continued)

4.1 Standards issued but not yet effective (continued)

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

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

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

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

4.2 Improvements to IFRSs

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

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

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

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

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

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

5 Financial risk management objectives and policies

5.1 Financial risk factors

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

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

5.1.1 Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the US dollar changes towards the EUR and other currencies tied to 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 13,728 USD thousand (2014: USD 13,491 thousand).

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

Increase / decrease in US dollar rate to EUR	Effect on profit ('000)	Effect on equity ('000)
2015		
+5%	63	2,584
-5%	(63)	(2,584)
2014		
+5%	2,371	3,005
-5%	(2,371)	(3,005)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. During 2015, the Group's borrowings at variable rates were predominantly denominated in US dollars, Russian rubles and Euro (Note 22).

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

	Increase / decrease in basis points	Effect on profit before tax ('000)
2015	+10	+37
	-10	-37
2014	+10	+75
	– 10	-75

Notes to the consolidated financial statements (continued)

5.1.2 Credit risk

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

The maximum exposure as at 31 December 2015 is USD 152,257 thousands (2014: USD 111,756 thousand).

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

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

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

5.1.3 Liquidity risk

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

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

Year ended 31/12/2015	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Non-current borrowings	-	-	-	73	73
Bonds	-	-	-	8,855	8,855
Current borrowings	-	1,818	76,838	-	78,656
Trade and other payables	-	195,599	-	-	195,599

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

Year ended 31/12/2014	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Non-current borrowings	-	-	-	733	733
Current borrowings	1,139	7,358	68,242	-	76,739
Trade and other payables	-	228,650	-	-	228,650

5.1.4 Legislative risk

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

5.2 Fair value measurement of financial instruments

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

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

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

5.3 Capital management

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

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

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

	31.12.2015	**31.12.2014**
Parent company financials		
Share capital	11,114	11,114
Total equity	58,115	55,095
Total equity/ Share capital	**523%**	**496%**

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

The Group monitors capital using the following ratio:

	31.12.2015	**31.12.2014**
Consolidated financials		
Net Debt*	53,660	36,182
Total equity	97,839	87,091
Net Liabilities/ Equity	**0.55**	**0.42**

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

6 Operating segment information

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

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

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

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

Notes to the consolidated financial statements (continued)

6 Operating segment information (continued)

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

	The Baltic[1)]	Central and Eastern Europe	CIS	Adjustments and eliminations [2)]	Group
Third-party revenue	106,328	385,093	772,599	-	1,264,020
Inter-segment revenue	271,693	-	113,532	(385,225)	-
Revenue	**378,021**	**385,093**	**886,131**	**(385,225)**	**1,264,020**
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 2014 are as follows:

	The Baltic[1)]	Central and Eastern Europe	CIS	Adjustments and eliminations [2)]	Group
Third-party revenue	112,731	280,578	898,895	-	1,292,204
Inter-segment revenue	494,831	7,348	107,634	(609,813)	-
Revenue	**607,562**	**287,926**	**1,006,529**	**(609,813)**	**1,292,204**
Operating profit / Segment result	7,621	5,055	(8,759)	(1,400)	2,517
Impairment/ reversal of impairment of doubtful debtors	29	138	-	-	167

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

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

6 Operating segment information (continued)

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

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

	Year ended 31 December 2015				
	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Inventory	25,922	60,744	135,819	(339)	222,146
Trade and other receivables	21,946	23,809	127,907	(57,093)	116,5469
Other assets	134,295	11,057	35,769	(138,379)	42,742
Total Assets	182,163	95,610	299,495	(195,811)	381,457
Liabilities	123,235	80,924	268,549	(189,090)	283,618
Capital expenditure (Note 15)	333	-	-	-	333
Amortisation (Note 15)	9	5	-	-	14
Capital expenditure (Note 16)	427	341	36	-	804
Depreciation (Note 16)	284	310	38	-	632

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

	Year ended 31 December 2014				
	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Inventory	41,674	17,247	179,304	(632)	237,593
Trade and other receivables	92,591	20,491	119,148	(120,474)	111,756
Other assets	88,334	7,643	44,344	(97,017)	43,304
Total Assets	222,599	45,381	342,796	(218,123)	392,653
Liabilities	167,039	32,862	319,510	(213,849)	305,562
Capital expenditure (Note 15)	14	73	-	-	87
Amortization (Note 15)	11	20	-	-	31
Capital expenditure (Note 16)	210	294	99	-	603
Depreciation (Note 16)	354	136	53	-	543

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

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

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

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

Notes to the consolidated financial statements (continued)

7 Sale of goods

	2015	2014
Mobile Solutions	153,352	206,753
Desktop Solutions	211,048	271,363
Smartphones and Tablets	671,934	529,804
Server & Security Solutions	125,641	129,220
Consumer and Multimedia	84,218	116,298
Software	17,827	38,766
	1,264,020	**1,292,204**

8 Expenses by nature

	2015	2014
Cost of sales	1,205,935	1,252,589
Employee benefit expense (Note 11)	11,110	11,903
Rent and office maintenance expenses	3,424	3,201
Warehousing expenses	1,402	1,770
Transportation expenses	1,753	1,500
Advertising costs	448	550
Professional fees	1,366	662
Depreciation and amortisation charges (Notes 15, 16)	646	574
Write-off of damaged goods (Note 18)	415	300
Other expenses	3,472	4,684
	1,229,971	**1,277,733**

9 Other income/expenses

9.1 Other operating income

	2015	2014
Net gain from foreign exchange	1,148	-
Income from services provided	297	146
Net Income from sale of propert, plant and equipment	6	24
Other income	158	66
	1,609	**236**

9.2 Other operating expenses

	2015	2014
Allowance for bad debts (Note 19)	(629)	(167)
Net loss from foreign exchange	-	(11,936)
Penalties and similar expenses	-	(65)
Other expenses	(96)	(22)
	(725)	**(12,190)**

10 Finance income and costs

	2015	2014
Interest expense:		
– Bank and bond borrowings	(8,974)	(7,190)
– Other interests	(174)	(16)
– Loss from derivative financial instruments	-	(829)
Finance costs	**(9,148)**	**(8,035)**
Finance income:		
– Interest income on short-term bank deposits	31	38
– Penalties and othero interest income	518	73
– Income from derivative financial instruments	-	370
Finance income	**549**	**481**
Net finance costs	**(8,599)**	**(7,554)**

11 Employee benefit expense

	2015	2014
Wages and salaries	8,954	9,429
Social security costs	2,007	2,379
Other employment benefits	149	95
	11,110	**11,903**

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

12 Income tax

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

Consolidated statement of comprehensive income

	2015	2014
Current income tax:		
Current income tax charge	4,493	2,054
Deferred tax :		
Relating to origination and reversal of temporary differences	-	-
	4,493	**2,054**

Consolidated statement of financial position

	2015	2014
Current income tax receivable	2,471	706
Current income tax payable	(2,401)	(1,066)
Current income tax receivable/(payable), net	**70**	**(360)**

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

	2015	2014
Accounting profit before income tax	**26,334**	**(5,037)**
At Latvia's statutory income tax rate of 15%	3,950	(756)
Effect of different tax rates in other countries	(449)	(336)
Unrecognized deferred tax asset,net	969	3,091
Expenses not deductible for tax purposes	24	56
Tax discount for donations	(1)	(1)
Tax charge	**4,493**	**2,054**

12 Income tax (continued)

The losses, for which no deferred tax asset has been recognized, are as follows:
109 thousand USD that can be used till 2026
931 thousand USD that can be used till 2020
3,994 thousand USD that can be used indefinite

13 Earnings per share

The Group has no dilutive potential shares therefore diluted earnings per share are equal to basic earnings per share.

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

	2015	**2014**
Profit attributable to equity holders of the Parent Company	12,541	(8,270)
Weighted average number of ordinary shares in issue (thousands)	9,785	6,877
Basic earnings per share (USD per share)	1.28	(1.20)

14 Dividends per share

During the year the shareholders have not paid dividends. During the prior year 2014 the shareholders had decided on the distribution of dividends on prior year retained earnings in amount of 4,940 thousand (USD 0.72 per share).

15 Intangible assets

	Software	Goodwill	Total
At 31 December 2013			
Cost	685	-	685
Accumulated amortisation	(590)	-	(590)
Net book amount	**95**	**-**	**95**
Year ended 31 December 2014			
Opening net book amount	95	-	95
Exchange differences	(12)	-	(12)
Additions	87	-	87
Disposals at cost	-	-	-
Amortisation reversal on disposals	-	-	-
Amortisation charge	(31)	-	(31)
Closing net book amount	**139**	**-**	**139**
At 31 December 2014			
Cost	760	-	760
Accumulated amortisation	(621)	-	(621)
Net book amount	**139**	**-**	**139**
Year ended 31 December 2015			
Opening net book amount	139	-	139
Exchange differences	(20)	-	(20)
Additions	6	327	333
Disposals at cost	-	-	-
Amortisation reversal on disposals	-	-	-
Amortisation charge	(14)	-	(14)
Closing net book amount	**111**	**327**	**438**
At 31 December 2015			
Cost	590	327	917
Accumulated amortisation	(479)	-	(479)
Net book amount	**111**	**327**	**438**

June 2nd, 2015 ELKO Grupa signed a contract with DL OU distributiors for DELL Business acquisition in Estonia EUR 300,000.

Amortisation expenses of intangible assets in the amount of USD 14 thousand (2014: USD 31 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 2015 was USD 294 thousand (2014: USD 318 thousand).

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

16 Property, plant and equipment

	Leasehold improvements	Communication and computer engineering	Other fixed assets	Total
At 31 December 2013				
Cost	48	1,659	2,045	3,752
Accumulated depreciation	(28)	(1,332)	(1,176)	(2,536)
Net book amount	**20**	**327**	**869**	**1,216**
Year ended 31 December 2014				
Opening net book amount	20	327	869	1,216
Exchange differences	(2)	(14)	(94)	(110)
Additions	-	176	427	603
Disposals at cost	(5)	(37)	(90)	(132)
Depreciation reversal on disposals	3	36	60	99
Depreciation charge	(3)	(265)	(275)	(543)
Reclassification	-	-	-	-
Closing net book amount	**13**	**223**	**897**	**1,133**
At 31 December 2014				
Cost	41	1,788	2,284	4,113
Accumulated depreciation	(28)	(1,565)	(1,387)	(2,980)
Net book amount	**13**	**223**	**897**	**1,133**
Year ended 31 December 2015				
Opening net book amount	13	223	897	1,133
Exchange differences	11	(14)	192	189
Additions	-	344	460	804
Disposals at cost	-	(17)	(35)	(52)
Depreciation reversal on disposals	-	16	21	37
Depreciation charge	(9)	(208)	(415)	(632)
Reclassification	-	-	-	-
Closing net book amount	**15**	**344**	**1,120**	**1,479**
At 31 December 2015				
Cost	59	1,625	2,614	4,298
Accumulated depreciation	(44)	(1,281)	(1,494)	(2,819)
Net book amount	**15**	**344**	**1,120**	**1,479**

Depreciation expenses of tangible assets in the amount of USD 632 thousand (2014: USD 543 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 1,382 thousand (2014: USD 1,255 thousand).

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

Finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2015 was USD 93 thousand (2014: USD 116 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

17 Long term loans

	31.12.2015	31.12.2014
Loan to Startmaster Trade Limited	-	2,000
Loan to AST Balt *	3,730	-
	3,730	**2,000**

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

18 Inventories

	31.12.2015	31.12.2014
Trade inventory	193,982	190,730
Trade inventory in transit	26,311	45,095
Prepayments for trade inventory	1,853	1,768
Total inventories at the lower of cost and net realisable value	**222,146**	**237,593**

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 415 thousand (2014: USD 300 thousand) and are charged to distribution costs in the statement of comprehensive income (Note 8).

The cost of inventories recognised as expense and included in cost of sales amounted to USD 1,201,865 thousand (2014: USD 1,251,912 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group USD 8,724 thousand (2014: USD 3,434 thousand) and trade inventory in transit have been pledged to secure bank credit lines (Note 22).

Of the total inventories consignment inventories as at 31 December 2015 were USD 100,730 thousand (2014: USD 103,252 thousand).

19 Trade and other receivables

	31.12.2015	31.12.2014
Trade receivables	97,339	96,305
Less: allowance for impairment of trade receivables	(340)	(371)
Trade receivables – net	**96,999**	**95,934**
Advances to suppliers	10,445	-
VAT receivable	3,229	5,863
Other debtors	4,570	3,249
Custom prepayments	771	-
Debt on factoring	313	-
Bond commissions	162	-
Accrued income	18	6,707
Other tax receivable in foreign countries	62	1
Personal income tax receivable	-	2
	116,569	**111,756**

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

19 Trade and other receivables (continued)

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

	Total	Neither past due nor impaired	Past due but not impaired		
			<90 day	90-180 day	>180 day
31.12.2015	96,999	95,092	1,671	229	7
31.12.2014	95,934	92,986	2,916	6	26

Based on further business performance of the debtors in 2016 and continuing incoming cash flows from the respective non impaired receivables, the management evaluated these receivables and noted that the impairment is not necessary.

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

	2015	2014
At 1 January	371	408
Impairment charge	629	167
Used allowances	(660)	(204)
At 31 December	**340**	**371**

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

20 Cash and cash deposits

	31.12.2015	31.12.2014
Cash at banks and on hand	31,958	38,197
Deposits up to 3 months	-	475
	31,958	**38,672**

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

21 Issued capital and reserves

21.1 Share capital

The total authorised and issued number of ordinary shares is 9,785 thousand shares (2014: 6,877 thousand shares) with a par value of USD 1,1358 per share (2014: USD 1,6161 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 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	31.12.2015 USD '000	31.12.2014 USD '000
Obligations under finance leases	EURIBOR3M + 2.5%	2016/2018	53	106
Bank loans and credit lines				
Credit line from Swedbank (USD facility)	USD LIBOR3M +5.5%	05.11.2016	5,209	-
Credit line from Promsvjazbank (RUB facility)	12%-464%	23.12.2016	13,495	16,784
Credit line from Nordea Bank Finland plc	Overnight LIBOR USD/EONIA EUR + 2.99%	31.07.2016	23,636	22,491
Credit line from AS SEB Banka	USD LIBOR3M + 3.75375%	31.07.2015	23,330	27,168
Credit line from Transilvania Bank (Romania)	8.00%	03.04.2016	6,548	5,051
Credit line from SKB D.D. (Slovenia)	EURIBOR6M + 4.0%	02.01.2015	-	164
Trade finance facility SKB D.D. (Slovenia)	1.8%	30.12.2016	327	-
Trade finance facility OTP Ukraine	23-26%	30.04.2016	4,239	-
Alfa Bank Kazakhstan			-	2,034
Other loans:				
Other - credit cards			3	5
Loan from Burntwood Inc.Limited (Elko Mobile)	3%	31.12.2014	-	980
			76,840	**74,783**
Non-current				
Bonds *	8%	16.10.2018	8,709	-
Obligations under finance lease and hire purchase contracts	EURIBOR3M + 2.5%	2016/2018	69	71
			85,618	**74,854**

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

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

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

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

22 Interest-bearing loans and borrowings (continued)

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

	31.12.2015	31.12.2014
USD	52,195	50,639
RUB	13,495	16,784
EUR	9141	346
RON	6,548	5,051
KZT	-	2,034
UAH	4,239	
	85,618	**74,854**

Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 15, 16, 18 and 19). The fair value of current borrowings approximates their carrying amount, as they bear floating interest rates and the impact of discounting is not significant. The average effective interest rate on the bank borrowings as at 31 December 2015 was 5.7% (2014: 5.6 %).

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

BANCA TRANSILVANIATRANSILVANIA (Romania)	663
Credit line from Nordea Bank Finland plc	8,404
Credit line from AS SEB Banka	1,670
Credit line from AS SWEDBANKA	2,291
Credit line from Volksbank a.s. (Slovakia)	2,994
Credit line from SKB D.D. (Slovenia)	109
	16,131

23 Trade and other payables

	31.12.2015	31.12.2014
Trade payables	169,375	217,682
Advances received	17,181	-
Social security and other taxes	1,919	2,593
Unpaid salaries	110	128
Accrued expenses	5,179	7,461
Dividends unpaid	-	484
Other	1,835	302
	195,599	**228,650**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 45 day terms;
- Other payables are non-interested bearing and have an average term of 30 days;
- Interest payable is normally settled monthly throughout the financial year;
- For terms and conditions relating to related parties, refer to Note 26

24 Provisions

	2015	2014
Beginning of year	163	181
Charged / (credited) to the statement of comprehensive income	-	163
– Used during year	(163)	(181)
End of year	**-**	**163**

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

25 Derivative financial assets and financial liabilities

25.1 Financial assets

	2015	2014
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
- Foreign exchange forward contracts	2,666	370
Total instruments at fair value through profit or loss	**2,666**	**370**

	31.12.2015	31.12.3014
Total financial assets	**2,666**	**370**

On December 31, 2015 was entered into foreign exchange forward contracts for the sale of RUB against USD 3,288 million RUB amount (RUB 1,058 million in 2014) with an average term of 39 days and the sale of RON against USD 3.6 million RON amount (in 2014 RON 3.6 million) with a maturity of 13 September 2016.
The fair value on 31 December 2015 was USD 2,665,910 (2014 USD 370,234). Foreign exchange forward contracts (Forward) the fair value is calculated at market rates.
2015 derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

25.2 Financial liabilities

	2015	2014
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
- Foreign exchange forward contracts	-	(829)
Total instruments at fair value through profit or loss	**-**	**(829)**

	31.12.2015	31.12.3014
Total financial liabilities	**-**	**829**

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

26 Related party disclosures

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

	% of Share Capital	
	31.12.2015	**31.12.2014**
Ashington Business Inc. Ltd, domiciled in the United Kingdom	19.78	19.78
Solsbury Inventions Ltd, domiciled in the United Kingdom	19.71	19.71
Amber Trust II S.C.A., domiciled in Luxemburg	17.67	17.67
Eurotrail SIA, domiciled in Latvia	10.96	10.96
Whitebarn SIA, domiciled in Latvia	10.96	10.96
KRM Serviss, SIA, domiciled in Latvia	10.72	10.72
Solo investīcijas, SIA, domiciled in Latvia	10.20	10.20

Notes to the consolidated financial statements (continued)

26.1 Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of USD 288 thousand (2014: USD 431 thousand).

	2015	2014
The Board members' remuneration:		
- salary expenses	239	366
- social insurance	49	65
	288	**431**

26.2 Transactions with related parties

The services in amount of USD 1,649 thousand (2014: USD 2,007 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
		USD '000	**USD '000**	**USD '000**	**USD '000**
AST Balts *	2015	11,649	200	-	3,730
	2014	2,007	27	5	-

* Accordingly the Group has entered into an agreement with related party AST BALTS for rent of warehousing and office space.

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

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

27 Commitments and contingencies

27.1 Operating lease commitments – Group as lessee

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

27.2 Guarantees and pledges

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

28 Events after the reporting period

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

SIA "Ernst & Young Baltic"
Muitas iela 1A
Rīga, LV-1010
Latvija
Tālr.: +371 6704 3801
Fakss: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reģ. Nr. 40003593454
PVN maksātāja Nr. LV40003593454

SIA Ernst & Young Baltic
Muitas iela 1A
Riga, LV-1010
Latvia
Tel.: +371 6704 3801
Fax: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reg. No: 40003593454
VAT payer code: LV40003593454

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Elko Grupa

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Elko Grupa and its subsidiaries (the "Group"), set out on pages 6 through 42 of the accompanying 2015 Annual Report, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 22 April 2016

General information

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

MANAGEMENT REPORT

Business activities

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

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

Financial analysis

Despite challenging geopolitical situation in CIS region, the Company in 2014 reached record sales of 1,292 million USD, which was 10% increase comparing to 2013. The increase mainly relates to the Company's ability to continuously expand its product portfolio and geographical reach at the same time maintaining effective and cost efficient distribution channels.

Gross profit for 2014 was 40.2 million USD, which was 15% decrease comparing to 2013. The decrease in gross margin is mainly related to considerable rapid devaluation of Russian ruble and Ukrainian hryvnia in Q4 2014.

The net result of AS ELKO Grupa 2014 was negative in amount of 7.1 million USD comparing to profit of 17.2 million USD in 2013. The main reason for negative results were considerable devaluation of Russian ruble and Ukrainian hryvnia that had considerable impact on gross margin as well as considerable losses from currency exchange fluctuation in amount of 11.9 million USD.

Significant events during reporting period

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

AS ELKO GRUPA structure

AS ELKO Grupa has shareholding in fourteen subsidiaries: ELKO Latvija SIA, ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., WESTech CZ s.r.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine TOB, Alma OOO, Pruvia SIA and ELKO Kazakhstan Limited.

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

Financial risk management

Multi-currency risk

AS ELKO Grupa operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro and Russian ruble. Foreign exchange risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments in various currencies. The purchase of goods from vendors is predominantly done in US dollars and the sales from the Company to subsidiaries are done in US dollars. The sales to customers in Latvia, Estonia and Lithuania are carried out in the respective local currencies.

The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – US dollar. The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars.

Interest rate risk

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

Credit risk
Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance and conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilization of credit limits is regularly monitored.

Inventories
AS ELKO Grupa determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis decreases the need to establish provisions for obsolete items. The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of decline of the market prices for the goods at the Company's warehouse or that are already ordered.

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

Prospects
The Company's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Company has cooperation partners.

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

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

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

Egons Mednis
Chairman of the Board,
President
Riga, 29 May, 2015

Consolidated statement of comprehensive income

	Note	2014 USD '000	2013 USD '000
Sale of goods	6; 7	1,292,204	1,175,791
Cost of sales	8	(1,251,912)	(1,128,184)
Gross profit		**40,292**	**47,607**
Other operating income	9.1	236	63
Selling and distribution costs	8	(5,685)	(4,853)
Administrative expenses	8	(20,136)	(17,559)
Other operating expenses	9.2	(12,190)	(613)
Operating profit		**2,517**	**24,645**
Finance income		481	89
Finance costs		(8,035)	(4,913)
Finance income/ (costs) – net	10	(7,554)	(4,824)
Profit/(loss) before tax from continuing operations		**(5,037)**	**19,821**
Income tax expense	12	(2,054)	(2,608)
Profit/(loss) for the year from continuing operations		**(7,091)**	**17,213**
Attributable to:			
Equity holders of the parent		(8,270)	12,248
Non-controlling interests		1,179	4,965
		(7,091)	**17,213**
Basic and diluted earnings per ordinary share (USD per share)	13	(1.20)	1.78
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		(7,564)	1,793
Total comprehensive income to be reclassified to profit or loss in subsequent periods for the year		**(14,655)**	**19,006**
Attributable to:			
Equity holders of the Parent Company		(15,251)	13,923
Non-controlling interests		596	5,083
		(14,655)	**19,006**

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

Egons Mednis
Chairman of the Board
29 May 2015

Consolidated statement of financial position

	Note	31.12.2014	31.12.2013
ASSETS		**USD '000**	**USD '000**
Non-current assets			
Intangible assets	15	139	95
Property, plant and equipment	16	1,133	1,216
Long term loans	17	2,000	2,040
		3,272	**3,351**
Current assets			
Inventories	18	237,593	210,106
Current income tax receivable	12	706	651
Trade and other receivables	19	111,756	148,380
Prepaid expenses		284	303
Derivative financial instruments	25	370	-
Cash deposits	20	475	475
Cash and cash equivalents	20	38,197	30,219
		389,381	**390,134**
Total assets		**392,653**	**393,485**
EQUITY			
Issued capital	21	11,114	11,114
Share premium	21	5,996	5,996
Translation reserve		(5,185)	19
Retained earnings		66,573	81,560
Equity attributable to equity holders of the Parent Company		**78,498**	**98,689**
Non-controlling interests		8,593	9,522
Total equity		**87,091**	**108,211**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	22	71	1,145
		71	**1,145**
Current liabilities			
Trade and other payables	23	228,650	170,689
Interest-bearing loans and borrowings	22	74,783	112,885
Income tax payable	12	1,066	374
Provisions	22	163	181
Derivative financial instruments	25	829	-
		305,491	**284,129**
Total liabilities		**305,562**	**285,274**
Total equity and liabilities		**392,653**	**393,485**

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

Egons Mednis
Chairman of the Board
29 May 2015

Consolidated statement of changes in equity

	Attributable to equity holders of the Parent Company						
	Issued capital	**Share premium**	**Retained earnings**	**Translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Balance at 1 January 2013	**11,114**	**5,996**	**77,535**	**121**	**94,766**	**4,513**	**99,279**
Other comprehensive income	-	-	-	1,675	1,675	118	1,793
Profit for the year	-	-	12,248	-	12,248	4,965	17,213
Total comprehensive income for 2013	**-**	**-**	**12,248**	**1,675**	**13,923**	**5,083**	**19,006**
Dividend	-	-	(10,000)	-	(10,000)	(74)	(10,074)
Balance at 31 December 2013	**11,114**	**5,996**	**79,783**	**1,796**	**98,689**	**9,522**	**108,211**
Balance at 1 January 2014	**11,114**	**5,996**	**79,783**	**1,796**	**98,689**	**9,522**	**108,211**
Other comprehensive loss	-	-	-	(6,981)	(6,981)	(583)	(7,564)
Profit for the year	-	-	(8,270)	-	(8,270)	1,179	(7,091)
Total comprehensive income for 2014	**-**	**-**	**(8,270)**	**(6,981)**	**(15,251)**	**596**	**(14,655)**
Dividend			(4,940)	-	(4,940)	(1,525)	(6,465)
Balance at 31 December 2014	**11,114**	**5,996**	**66,573**	**(5,185)**	**78,498**	**8,593**	**87,091**

Retained earnings are USD 66,573 thousand (2013: USD 79,783 thousand), of which USD 77 thousand (2013: USD 83 thousand) are statutory reserves and are not a subject to distribution in dividends.

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

Egons Mednis
Chairman of the Board
29 May 2015

Consolidated statement of cash flows

	Note	2014 USD'000	2013 USD'000
Operating activities			
Profit/(Loss) before tax from continuing operations		(5,037)	19,821
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation of property, plant and equipment	16	543	535
Amortisation of intangible assets	15	31	38
Finance income	10	(481)	(89)
Finance costs	10	8,035	4,913
Fair value losses on derivative financial instruments, net	25	459	-
Movements in provisions and allowances		(18)	12
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables and prepaid expenses		37,296	(19,742)
(Increase) in inventories		(27,487)	(27,710)
Increase/(Decrease) in trade and other payables		49,382	31,250
Interest received		481	89
Income tax paid		(1,417)	(3,155)
Net cash flows (used in) / from operating activities		**61,787**	**5,962**
Investing activities			
Proceeds from sale of property, plant and equity		33	2
Purchases of property, plant and equipment	16	(603)	(598)
Purchases of intangible assets	15	(87)	(22)
Loans issued		-	(1,917)
Loans repaid		40	-
Proceeds from cash deposits	20	-	(95)
Net cash flows (used in) / from investing activities		**(617)**	**(2,630)**
Financing activities			
Bank credit lines received		3,994	34,644
Repayments of bank credit lines		(43,170)	-
Interest paid		(8,035)	(4,913)
Dividends paid to equity holders of the parent		(4,456)	(12,440)
Dividends paid to non-controlling interests		(1,525)	(74)
Net cash flows (used in) / from financing activities		**(53,192)**	**17,217**
Net increase/(decrease) in cash and cash equivalents		**7,978**	**20,549**
Cash and cash equivalents at beginning of the year		30,219	9,670
Cash and cash equivalents at end of the year	**20**	**38,197**	**30,219**

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

Notes to the consolidated financial statements

1 General information

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

The Parent Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Toma str, 4, Riga, LV-1003, Latvia. These consolidated financial statements have been prepared for issue by the Management on 30 April 2015 and signed on its behalf by the Chairman of the Board Egons Mednis.

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

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

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

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

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

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

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, **except for, derivative financial instruments that have been measured at fair value.**
The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

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

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. 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 U.S. dollars, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional 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 functional 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 consolidaton the assets and liabilities of foreign operations are translated into U.S. dollars 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 consolidaton 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 and issuance of sales invoice.

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

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

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

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

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

2.4 Taxes

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

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

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

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

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

Notes to the consolidated financial statements (continued)

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

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

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

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

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

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

The corporate income tax rates in the major jurisdiction where the Company is operating are:
Latvia – 15%
Russia - 20%
Ukraine – 18%
Slovakia – 22%
Romania – 16%
Cyprus – 12.5%
Switzerland – 13% - 25%

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

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

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

2.5 Financial instruments – initial recognition and subsequent measurement

Financial assets

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

Derecognition

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

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

2.6 Property, plant and equipment

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

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

IT equipment	2 years
Other	4-5 years

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

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

2.7 Leases

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

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

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

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

2.8 Borrowing costs

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

2.9 Intangible assets

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

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, 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 staff costs.

2.18 Going concern

The Group incurred a loss of EUR 14.7 million in the reporting year. As at 31 December 2014, the Group's current assets exceeded its current liabilities by EUR 83.89 million, equity as at year end is positive EUR 87 million.

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

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

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

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

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

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

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

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

2.19 Changes in accounting policies and disclosures

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

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

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

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

- **Amendment to IAS 27 *Separate Financial Statements*** - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The implementation of this amendment had no impact on the financial statements of the Group.

- **Amendment to IAS 28 *Investments in Associates and Joint Ventures*** - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment had no impact on the financial statements of the Group.

- **Amendment to IAS 32 *Financial Instruments: Presentation*** - Offsetting Financial Assets and Financial Liabilities - This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The implementation of this amendment had no impact on the financial statements of the Group.

- **Amendment to IAS 36 *Impairment of Assets*** - This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Group.

- **Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*** - The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the Group, since it does not apply hedge accounting.

- **IFRS 10 *Consolidated Financial Statements*** - IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. In 2014 Westech Slovakia s.r.o. which is subsidiary of Parent company established new entity Westech CZ s.r.o. Parent company controls 51% of Westech Slovakia and Westech Slovakia controls 51% of Westech CZ. The management of the Group has assessed that Group controls operations of Westech CZ entity and have included the Westech CZ in consolidated results.

- **IFRS 11 *Joint Arrangements*** - IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment had no impact on the financial statements of the Group since it has no joint ventures.

- **IFRS 12 *Disclosures of Interests in Other Entities*** - IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the Group nor disclosures as the Group does not have such investments.
- ***Amendments to IFRS 10, IFRS 12 and IAS 27*** - *Investment Entities* - The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment had no impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

3 Significant accounting judgments, estimates and assumptions

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

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

3.1 Vendor programs

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

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2014 amounted to USD 10,086 thousand (2013: USD 10,873 thousand) based on the individual vendor agreements.

3.2 Income taxes

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

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

3.3 Impairment of inventories

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

3.4 Impairment of trade receivables

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

3.5 Warranty provisions

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

3.6 Revenue recognition

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

3.7 Fair value estimation for financial instruments

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

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

4 Changes in accounting standarts

4.1 Standards issued but not yet effective

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

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

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

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

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.2 Improvements to IFRSs

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

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

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

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

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

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

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

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

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

5 Financial risk management objectives and policies

5.1 Financial risk factors

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

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

5.1.1 Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the US dollar changes towards the EUR and other currencies tied to 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 13,491 USD thousand (2013: USD 12,725 thousand).

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

Increase / decrease in US dollar rate to EUR	Effect on profit ('000)	Effect on equity ('000)
2014		
+5%	2,371	3,005
-5%	(2,371)	(3,005)
2013		
+5%	47	701
-5%	(47)	(701)

Notes to the consolidated financial statements (continued)

Interest rate risk

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

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

	Increase / decrease in basis points	Effect on profit before tax ('000)
2014	+10	+75
	-10	-75
2013	+10	(116)
	– 10	116

5.1.2 Credit risk

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

The maximum exposure as at 31 December 2014 is USD 111,756 thousands (2013: USD 148,380 thousand).

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

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

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

5.1.3 Liquidity risk

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

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

Year ended 31/12/2014	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Non-current borrowings	-	-	-	73	73
Current borrowings	1,139	7,358	68,242	-	76,739
Trade and other payables	-	228,650	-	-	228,650

Notes to the consolidated financial statements (continued)

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

Year ended 31/12/2013	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
Non-current borrowings	-	-	-	1,270	1,270
Current borrowings	-	23,566	91,016	-	114,582
Trade and other payables	-	170,689	-	-	170,689

5.1.4 Legislative risk

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

5.2 Fair value estimation

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

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

Notes to the consolidated financial statements (continued)

5.3 Capital management

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

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

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

	31.12.2014	31.12.2013
Parent company financials		
Share capital	11,114	11,114
Total equity	55,095	59,907
Total equity/ Share capital	**496%**	**539%**

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

The Group monitors capital using the following ratio:

	31.12.2014	31.12.2013
Consolidated financials		
Net Debt*	36,182	83,336
Total equity	87,091	108,211
Net Liabilities/ Equity	**0.42**	**0.77**

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

6 Operating segment information

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

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

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

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

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

	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Third-party revenue	112,731	280,578	898,895	-	1,292,204
Inter-segment revenue	494,831	7,348	107,634	(609,813)	-
Revenue	**607,562**	**287,926**	**1,006,529**	**(609,813)**	**1,292,204**
Operating profit / Segment result	7,621	5,055	(8,759)	(1,400)	2,517
Impairment/ reversal of impairment of doubtful debtors	29	138	-	-	167

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

	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Third-party revenue	112,440	149,925	913,426	-	1,175,791
Inter-segment revenue	708,927	4,115	801	(713,843)	-
Revenue	**821,367**	**154,040**	**914,227**	**(713,843)**	**1,175,791**
Operating profit / Segment result	6,477	1,750	16,679	(261)	24,645
Impairment/ reversal of impairment of doubtful debtors	115	155	-	-	270

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

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

6 Operating segment information cont'd

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

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

	Year ended 31 December 2014				
	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Inventory	41,674	17,247	179,304	(632)	237,593
Trade and other receivables	92,591	20,491	119,148	(120,474)	111,756
Other assets	88,334	7,643	44,344	(97,017)	43,304
Total Assets	222,599	45,381	342,796	(218,123)	392,653
Liabilities					
Capital expenditure (Note 15)	14	73	-	-	87
Amortisation (Note 15)	11	20	-	-	31
Capital expenditure (Note 16)	210	294	99	-	603
Depreciation (Note 16)	354	136	53	-	543

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

	Year ended 31 December 2013				
	The Baltic[1]	Central and Eastern Europe	CIS	Adjustments and eliminations [2]	Group
Inventory	44,154	11,665	155,109	(822)	210,106
Trade and other receivables	100,880	12,618	121,805	(86,923)	148,380
Other assets	100,768	5,979	48,397	(120,145)	34,999
Total Assets	245,802	30,262	325,311	(207,890)	393,485
Liabilities	185,397	19,351	283,589	(203,063)	285,274
Capital expenditure (Note 15)	18	4	-	-	22
Amortization (Note 15)	13	25	-	-	38
Capital expenditure (Note 16)	432	166	-	-	598
Depreciation (Note 16)	374	115	46	-	535

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

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

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

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

7 Sale of goods

	2014	2013
Mobile Solutions	206,753	376,253
Desktop Solutions	271,363	305,706
Smartphones and Tablets	529,804	199,884
Server & Security Solutions	129,220	141,095
Consumer and Multimedia	116,298	105,821
Software	38,766	47,032
	1,292,204	**1,175,791**

8 Expenses by nature

	2014	2013
Trade inventory sold	1,251,912	1,128,184
Employee benefit expense (Note 11)	11,903	10,534
Rent and office maintenance expenses	3,201	2,906
Warehousing expenses	1,770	1,704
Transportation expenses	1,500	1,162
Advertising costs	1,227	938
Professional fees	662	642
Depreciation and amortisation charges (Notes 15, 16)	574	573
Write-off of damaged goods (Note 18)	300	244
Other expenses	4,684	3,709
	1,277,733	**1,150,596**

9 Other income/expenses

9.1 Other operating income

	2014	2013
Income from services provided	146	8
Other income	66	55
Net Income from sale of propert, plant and equipment	24	-
	236	**63**

9.2 Other operating expenses

	2014	2013
Allowance for bad debts (Note 19)	(167)	(270)
Net loss from foreign exchange influence *	(11,936)	(299)
Penalties and similar expenses	(65)	-
Other expenses	(22)	(44)
	(12,190)	**(613)**

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

Notes to the consolidated financial statements (continued)

10 Finance income and costs

	2014	2013
Interest expense:		
– Bank borrowings	(5,006)	(4,228)
– Other interests	(2,200)	(685)
– Loss from derivative financial instruments	(829)	-
Finance costs	**(8,035)**	**(4,913)**
Finance income:		
– Interest income on short-term bank deposits	38	43
– Other interest income	73	46
– Income from derivative financial instruments	370	-
Finance income	**481**	**89**
Net finance costs	**(7,554)**	**(4,824)**

11 Employee benefit expense

	2014	2013
Wages and salaries	9,429	8,314
Social security costs	2,379	2,040
Other employment benefits	95	180
	11,903	**10,534**

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

12 Income tax

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

Consolidated statement of comprehensive income

	2014	2013
Current income tax:		
Current income tax charge	2,054	2,608
Deferred tax :		
Relating to origination and reversal of temporary differences	-	-
	2,054	**2,608**

Consolidated statement of financial position

	2014	2013
Current income tax receivable	706	651
Current income tax payable	(1,066)	(374)
Current income tax receivable/(payable), net	**(360)**	**277**

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

	2014	2013
Accounting profit before income tax	**(5,024)**	**19,821**
At Latvia's statutory income tax rate of 15%	(754)	2,973
Effect of different tax rates in other countries	-	(408)
Unrecognized deferred tax asset	2,753	-
Expenses not deductible for tax purposes	56	83
Tax discount for donations	(1)	(40)
Tax charge	**2,054**	**2,608**

Notes to the consolidated financial statements (continued)

The summary of unused tax losses are as follows:
15,910 thousand USD that can be used till 2022
2,469 thousand USD that can be used till 2020

13 Earnings per share

The Group has no dilutive potential shares therefore diluted earnings per share are equal to basic earnings per share.

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

	2014	**2013**
Profit attributable to equity holders of the Parent Company	(8,270)	12,248
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (USD per share)	(1.20)	1.78

14 Dividends per share

During the year the shareholders have decided on the distribution of the dividends on prior year retained earnings in amount of USD 4,940 thousand (USD 0.72 per share), in 2013 USD 10,000 thousand (USD 1.45 per share).

15 Intangible assets

	Software
At 31 December 2012	
Cost	717
Accumulated amortisation	(608)
Net book amount	**109**
Year ended 31 December 2013	
Opening net book amount	109
Exchange differences	2
Additions	22
Disposals at cost	(30)
Amortisation reversal on disposals	30
Amortisation charge	(38)
Closing net book amount	**95**
At 31 December 2013	
Cost	685
Accumulated amortisation	(590)
Net book amount	**95**
Year ended 31 December 2014	
Opening net book amount	95
Exchange differences	(12)
Additions	87
Disposals at cost	-
Amortisation reversal on disposals	-
Amortisation charge	(31)
Closing net book amount	**139**
At 31 December 2014	
Cost	760
Accumulated amortisation	(621)
Net book amount	**139**

Amortisation expenses of intangible assets in the amount of USD 31 thousand (2013: USD 38 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses.

The cost of fully depreciated intangible assets at 31 December 2014 was USD 318 thousand (2013: USD 345 thousand).

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

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment

	Leasehold improvements	Communication and computer engineering	Other fixed assets	Total
At 31 December 2012				
Cost	30	1,390	1,853	3,273
Accumulated depreciation	(26)	(1,061)	(1,020)	(2,107)
Net book amount	**4**	**329**	**833**	**1,166**
Year ended 31 December 2013				
Opening net book amount	4	329	833	1,166
Exchange differences	-	20	(31)	(11)
Additions	18	276	304	598
Disposals at cost	-	(114)	(125)	(239)
Depreciation reversal on disposals	-	112	125	237
Depreciation charge	(2)	(296)	(237)	(535)
Reclassification	-	-	-	-
Closing net book amount	**20**	**327**	**869**	**1,216**
At 31 December 2013				
Cost	48	1,659	2,045	3,752
Accumulated depreciation	(28)	(1,332)	(1,176)	(2,536)
Net book amount	**20**	**327**	**869**	**1,216**
Year ended 31 December 2014				
Opening net book amount	20	327	869	1,216
Exchange differences	(2)	(14)	(94)	(110)
Additions	-	176	427	603
Disposals at cost	(5)	(37)	(90)	(132)
Depreciation reversal on disposals	3	36	60	99
Depreciation charge	(3)	(265)	(275)	(543)
Reclassification	-	-	-	-
Closing net book amount	**13**	**223**	**897**	**1,133**
At 31 December 2014				
Cost	41	1,788	2,284	4,113
Accumulated depreciation	(28)	(1,565)	(1,387)	(2,980)
Net book amount	**13**	**223**	**897**	**1,133**

Depreciation expenses of tangible assets in the amount of USD 543 thousand (2013: USD 535 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses.

The cost of fully depreciated property, plant and equipment at 31 December 2014 was USD 1,255 thousand (2013: USD 1,188 thousand).

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

Finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2014 was USD 116 thousand (2013: USD 174 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

17 Long term loans

	31.12.2014	31.12.2013
Loan to Startmaster Trade Limited*	2,000	2,000
Other loans	-	40
	2,000	**2,040**

* In 2013 ELKO Marketing Limited issued a loan to Startmaster Trade Limited in amount of 2 million USD. The loan was granted with the purpose of the acquisition of company Trade Alliance OOO that operates retaile chain "Startmaster" with 25 retail stores in Russia in Moscow region. The interest on loan is 1%. The repayment date of the loan is 11 June 2015. According to negotiations with the partner the loan will be prolonged for one year.

18 Inventories

	31.12.2014	31.12.2013
Trade inventory	190,730	159,368
Trade inventory in transit	45,095	50,465
Prepayments for trade inventory	1,768	273
Total inventories at the lower of cost and net realisable value	**237,593**	**210,106**

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 300 thousand (2013: USD 244 thousand) and are charged to distribution costs in the statement of comprehensive income (Note 8).

The cost of inventories recognised as expense and included in cost of sales amounted to USD 1,251,912 thousand (2013: USD 1,128,184 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group USD 3,434 thousand (2013: USD 11,157 thousand) and trade inventory in transit have been pledged to secure bank credit lines (Note 22).

Of the total inventories consignment inventories as at 31 December 2014 were USD 103,252 thousand (2013: USD 133,739 thousand).

19 Trade and other receivables

	31.12.2014	31.12.2013
Trade receivables	96,305	132,659
Less: allowance for impairment of trade receivables	(371)	(408)
Trade receivables – net	**95,934**	**132,251**
VAT receivable	5,863	4,408
Other debtors	3,249	10,317
Accrued income	6,707	1,392
Other tax receivable in foreign countries	1	7
Personal income tax receivable	2	5
	111,756	**148,380**

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

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

	Total	Neither past due nor impaired	Past due but not impaired		
			<90 day	90-180 day	>180 day
31.12.2014	95,934	92,986	2,916	6	26
31.12.2013	132,251	128,924	3,221	67	39

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

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

	2014	2013
At 1 January	408	28,164
Impairment charge	167	270
Used allowances	(204)	(28,026)
At 31 December	**371**	**408**

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

	31.12.2014	31.12.2013
Cash at banks and on hand	38,197	30,219
Deposits up to 3 months	475	475
	38,672	**30,694**

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

21 Issued capital and reserves

21.1 Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2013: 6,877 thousand shares) with a par value of USD 1,616 per share (2013: USD 1,616 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 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	31.12.2014 USD '000	31.12.2013 USD '000
Obligations under finance lease and hire purchase contracts	EURIBOR3M + 2.5%	2015/2014	106	83
Bank loans and credit lines				
Credit line from Promsvjazbank (USD facility)	5.5%	05.06.2015	-	5,000
Credit line from Promsvjazbank (RUB facility)	12%-16%	05.06.2015	16,784	15,146
Credit line from Nordea Bank Finland plc	USD LIBOR3M + 2.62%	31.07.2015	22,491	26,803
Credit line from AS SEB Banka	USD LIBOR3M + 2.62%	31.07.2015	27,168	54,163
Credit line from Volksbank a.s. (Slovakia)	EURIBOR1M + 1.2%	30.04.2015	-	3,697
Credit line from Transilvania Bank (Romania)	8.00%	04.04.2015	5,051	4,924
Credit line from SKB D.D. (Slovenia)	EURIBOR6M + 4.0%	02.01.2015	164	-
Trade finance facility Macquarie Bank Limited	EURIBOR3M + 4.8%	06.06.2014	-	2,784
Trade finance facility Deutsch bank AG	USD LIBOR3M + 3.0%	16.01.2015	-	276
Alfa Bank Kazakhstan			2,034	-
Other loans:				
Other - credit cards			5	9
Loan from Burntwood Inc.Limited (Elko Mobile)	3%	31.12.2014	980	-
			74,783	**112,885**
Non-current				
Obligations under finance lease and hire purchase contracts	EURIBOR3M + 2.5%	2015/2017	71	165
Other loans:				
Loan from Burntwood Inc.Limited (Elko Mobile)			-	980
			71	**1,145**
			74,854	**114,030**

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

	31.12.2014	31.12.2013
USD	50,639	87,222
RUB	16,784	15,146
EUR	346	6,738
RON	5,051	4,924
KZT	2,034	-
	74,854	**114,030**

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

Notes to the consolidated financial statements (continued)

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

Credit line from Promsvjazbank	12,500
Credit line from Nordea Bank Finland plc	2,509
Credit line from AS SEB Banka	22,832
Credit line from Volksbank a.s. (Slovakia)	3,339
Credit line from SKB D.D. (Slovenia)	322
	41,502

23 Trade and other payables

	31.12.2014	**31.12.2013**
Trade payables	217,682	165,492
Social security and other taxes	2,593	2,338
Unpaid salaries	128	116
Accrued expenses	7,461	1,747
Dividends unpaid	484	-
Other	302	996
	228,650	**170,689**

Terms and conditions of the above financial liabilities:

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

24 Provisions

	2014	**2013**
Beginning of year	181	169
Charged / (credited) to the statement of comprehensive income	163	181
– Used during year	(181)	(169)
End of year	**163**	**181**

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

25 Derivative financial assets and financial liabilities

25.1 Financial assets

	2014	**2013**
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges - Foreign exchange forward contracts	370	-
Total instruments at fair value through profit or loss	**370**	**-**

	31.12.2014	**31.12.3013**
Total financial assets	**370**	**-**

25.2 Financial liabilities

	2014	2013
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
- Foreign exchange forward contracts	(829)	-
Total instruments at fair value through profit or loss	**(829)**	**-**

	31.12.2014	31.12.3013
Total financial liabilities	**829**	**-**

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

26 Related party disclosures

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

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

26.1 Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of USD 431 thousand (2013: USD 474 thousand).

	2014	2013
The Board members' remuneration:		
- salary expenses	366	382
- social insurance	65	92
	431	**474**

26.2 Transactions with related parties

The services in amount of USD 2,007 thousand (2013: USD 2,076 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
		USD '000	**USD '000**	**USD '000**
AST Balts *	2014	2,007	27	5
	2013	2,076	33	-

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

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

27 Commitments and contingencies

27.1 Operating lease commitments – Group as lessee

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

27.2 Guarantees and pledges

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

28 Events after the reporting period

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

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

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

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

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

SIA "Ernst & Young Baltic"
Muitas iela 1A
Rīga, LV-1010
Latvija
Tālr.: +371 6704 3801
Fakss: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reģ. Nr. 40003593454
PVN maksātāja Nr. LV40003593454

SIA Ernst & Young Baltic
Muitas iela 1A
Riga, LV-1010
Latvia
Tel.: +371 6704 3801
Fax: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reg. No: 40003593454
VAT payer code: LV40003593454

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Elko Grupa

Report on the financial statements

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

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

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

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

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

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

SIA Ernst & Young Baltic
Licence No. 17

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

Riga,
29 May 2015

ELKO GROUP AS

Unaudited Consolidated Financial Statements
For 6 months ended 30 June 2016

Structure

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

Business activities

ELKO Grupa AS (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic States, Central and Eastern Europe. The Company's core business activity is wholesale distribution of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO Grupa subsidiaries and cooperation partners, representing a broad range of vendors of these products all over the world, including Lenovo, Apple, Intel, Acer, Asus, Seagate, Western Digital and others.
The key to the success of ELKO Grupa AS as the parent company is the long-term strategy for cooperation with vendors developed over the years, centralized purchase system, functionality of business process.

Financial analysis

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

Prospects

The Company's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Company has cooperation partners. The key factors driving the Company's growth was the increase in demand in the markets where the Company operates. The growth was mainly stimulated by the increased demand of mobile devices.
There are certain indicators that market condition in CIS region stabilizing and indicate trend towards slow growth. That allows the Company to remain optimistic regarding the increased trade volumes in 2016.
In the light of given market risks the management has assigned priority towards continuous working capital management.

Significant events during reporting period

In 2016 the Company has become the member of Global Technology Distribution Council. The Company has become official distributor of Lenovo notebooks in Russia.

ELKO Grupa AS structure

ELKO Grupa AS has shareholding in following subsidiaries: ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., WESTech CZ s.r.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Ukraine TOB, Alma OOO and ELKO Kazakhstan Limited.
ELKO Grupa AS has majority shareholding in all of the subsidiaries.

Financial risk management

Multi-currency risk

ELKO Grupa AS operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro and Russian rubles. Foreign exchange risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments in various currencies.
The purchase of goods is predominantly in US dollars, but sales are conducted in different currencies. In the CIS region main currency is US dollar, but in the Baltic trade is conducted in local currencies that are pegged to the euro. CEE countries Slovakia and Slovenia trades in Euros, but Romania in national currency – Romanian lei(s).
The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – US dollar.
The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars.

Interest rate risk

ELKO Grupa AS uses short-term borrowing for the partial financing of its current assets. All of the borrowings are at floating rate thus exposing the Company to interest rate risk.

Management report (cont'd)

Financial risk management (cont'd)

Credit risk
Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance but mainly the risk is minimized by internally developed conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilization of credit limits is regularly monitored.

Inventories
ELKO Grupa AS determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products. Furthermore, the procedure for placing the orders has helped to decrease the inventory days. Weekly inventory analysis minimizes the need to establish provisions for obsolete items.
The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide the rights to claim the compensation on preordered goods in the warehouse in case of price reduction or decline in the market prices.

Liquidity risk
Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Events after balance sheet date
During July 2016 the Company extended the current syndicate creditline and added new syndicate member OP Bank with additional USD 15M credit facility. The total credit facility from the syndicate now amounts to USD 78M. There are no other subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 30 June 2016.

Egons Mednis
Chairman of the Board

Statement of Directors' responsibility

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as of June 30, 2016 and of its financial operations for the period ended 30 June 2016. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;
has provided well-grounded and prudent conclusions and evaluations;
has followed the going concern principle.

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

Egons Mednis

Chairman of the Board

Consolidated balance sheet

	Note	30.06.2016	31.12.2015	30.06.2016	31.12.2015
ASSETS		**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Non-current assets					
Property, plant and equipment		2,144	1,479	1,931	1,358
Intangible assets		440	438	396	402
Long term loans		3,799	3,730	3,426	3,426
		6,383	**5,647**	**5,753**	**5,186**
Current assets					
Inventories		243,774	222,146	219,577	204,047
Current income tax receivable		3,611	2,471	3,253	2,270
Trade and other receivables		85,135	116,569	76,680	107,072
Derivative financial instruments		86	2,666	78	2,449
Cash deposits		660	-	594	-
Cash and cash equivalents		23,942	31,958	21,566	29,354
		357,208	**375,810**	**321,748**	**345,192**
Total assets		**363,591**	**381,457**	**327,501**	**350,378**
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Ordinary shares		11,114	11,114	9,785	9,785
Share premium		5,996	5,996	4,974	4,974
Translation reserve		(9,913)	(11,884)	2,575	2,281
Retained earnings		75,980	79,114	57,586	60,429
		83,177	**84,340**	**74,920**	**77,469**
Non-controlling interest in equity		**12,002**	**13,499**	**10,811**	**12,399**
Total equity	3	**95,179**	**97,839**	**85,731**	**89,868**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings		8,929	8,778	8,043	8,063
	4	**8,929**	**8,778**	**8,043**	**8,063**
Current liabilities					
Trade and other payables		198,249	195,599	178,570	179,662
Interest-bearing loans and borrowings	4	57,975	76,840	52,221	70,580
Income tax payable		2,912	2,401	2,623	2,205
Derivative financial instruments		347	-	313	-
		259,483	**274,840**	**233,727**	**252,447**
Total liabilities		**268,412**	**283,618**	**241,770**	**260,510**
Total equity and liabilities		**363,591**	**381,457**	**327,501**	**350,378**

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

Egons Mednis
Chairman of the Board

Consolidated income statement

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

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

Egons Mednis
Chairman of the Board

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2015	**11,114**	**5,996**	**66,573**	**(5,185)**	**78,498**	**8,593**	**87,091**
Currency translation differences	-	-	-	(6,699)	(6,699)	(618)	(7,317)
Profit for the period	-	-	12,541	-	12,541	9,300	21,841
Total recognized income and expense for 2015	**-**	**-**	**12,541**	**(6,699)**	**5,842**	**8,682**	**14,524**
Dividend relating to prior years	-	-		-	-	(3,776)	(3,776)
Balance at 31 December 2015	**11,114**	**5,996**	**79,114**	**(11,884)**	**84,340**	**13,499**	**97,839**
Balance at 1 January 2016	**11,114**	**5,996**	**79,114**	**(11,884)**	**84,340**	**13,499**	**97,839**
Currency translation differences	-	-	-	1,971	1,971	115	2,086
Profit for the period	-	-	2,966	-	2,966	1,358	4,324
Total recognized income and expense for 2016	**-**	**-**	**2,966**	**1,971**	**4,937**	**1,473**	**6,410**
Dividend relating to prior years	-	-	(6,100)	-	(6,100)	(2,970)	(9,070)
Balance at 30 June 2016	**11,114**	**5,996**	**75,980**	**(9,913)**	**83,177**	**12,002**	**95,179**

	Share capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Balance at 1 January 2015	**9,785**	**4,974**	**49,125**	**771**	**64,655**	**7,078**	**71,733**
Currency translation differences	-	-	-	1,510	1,510	390	1,900
Profit for the period	-	-	11,304	-	11,304	8,382	19,686
Total recognized income and expense for 2015	**-**	**-**	**11,304**	**1,510**	**12,814**	**8,772**	**21,586**
Dividend relating to prior years	-	-		-	-	(3,451)	(3,451)
Balance at 31 December 2015	**9,785**	**4,974**	**60,429**	**2,281**	**77,469**	**12,399**	**89,868**
Balance at 1 January 2016	**9,785**	**4,974**	**60,429**	**2,281**	**77,469**	**12,399**	**89,868**
Currency translation differences	-	-	-	294	294	(150)	144
Profit for the period	-	-	2,657	-	2,657	1,217	3,874
Total recognized income and expense for 2016	**-**		**2,657**	**294**	**2,951**	**1,067**	**4,018**
Dividend relating to prior years	-	-	(5,500)	-	(5,500)	(2,655)	(8,155)
Balance at 30 June 2016	**9,785**	**4,974**	**57,586**	**2,575**	**74,920**	**10,811**	**85,731**

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

Consolidated cash flows statement

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

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

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 6 months ended 30 June 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

2. Segment information

Geographical segments by location of customers

The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.

At 30 June 2016, it is organized into three main geographical segments by location of customers:

(1) The Baltic area relates to Latvia, Lithuania and Estonia

(2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania, Czech Republic and other countries

(3) The area of CIS relate to Russia, Ukraine and Kazakhstan.

The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.

Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating result. Unallocated remain operating expenses of the central operation.

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Third-party revenue	49,126	254,878	237,511	-	541,515
Inter-segment revenue	112,674	118	45,398	(158,190)	-
Revenue	**161,800**	**254,996**	**282,909**	**(158,190)**	**541,515**

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

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

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Third-party revenue	44,022	228,398	212,835	-	485,256
Inter-segment revenue	100,968	106	40,681	(141,755)	-
Revenue	**144,990**	**228,504**	**253,517**	**(141,755)**	**485,256**

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

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

Notes to the consolidated financial statements

2. Segment information (continued)

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Unallocated assets comprise principally the central operations' equipment, inventory and other receivables from non-related parties.

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	USD'000	USD'000	USD'000	USD'000	USD'000
Assets	174,947	107,574	237,374	(156,304)	363,591

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

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

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets	142,800	79,689	228,291	(123,279)	327,501

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

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

Notes to the consolidated financial statements (continued)

3. Share capital

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

4. Borrowings

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

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

5. Taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average tax rate for 6 months ended 30 June 2016 is 15.7 % (the estimated tax rate for 6 months ended 30 June 2015 was 6.6 %). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries, as well as the Group's policy on recognizing deferred tax assets.

6. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earning per share.
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There were no treasury shares.

	Jan-Jun 2016 USD'000	Jan-Jun 2015 USD'000	Jan-Jun 2016 EUR'000	Jan-Jun 2015 EUR'000
Profit attributable to equity holders of the Company	2,966	5,185	2,657	4,647
Weighted average number of ordinary shares in	9,785	6,877	9,785	6,877
Basic earnings (USD and EUR per share)	0.30	0.75	0.27	0.68

7. Related party transactions

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

Terms and conditions of transactions with related parties:
The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the quarter ended 30 June 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

8. Issued guarantees and pledges

All assets on which the Company holds title have been pledged as security in favour of the banks.

9. Subsequent events

During July 2016 the Company extended the current syndicate creditline and added new syndicate member OP Bank with additional USD 15M credit facility. The total credit facility from the syndicate now amounts to USD 78M. There are no other subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 30 June 2016.

ANNEX D

Final Terms dated [□]
AS ELKO Grupa
Issue of [□] Notes due [□]
under the EUR 50,000,000 (or equivalent in USD) Programme

These Final Terms together with the General Terms and Conditions of the EUR 50,000,000 (or equivalent in USD) Programme of AS ELKO Grupa, as set forth in the Base Prospectus of the Programme dated [□], constitutes the Final Terms of the Series of Notes described herein for the purposes of Article 5.4 of the Directive 2003/71/EC and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. However, a summary of the issue of the Notes is annexed to these Final Terms.

The Base Prospectus has been published on the Nasdaq Riga website www.nasdaqbaltic.com

1.	Issuer:	AS ELKO Group
2.	Serial number of Series of Notes:	[□]
3.	ISIN Code:	[□]
4.	Nominal Value of the Note:	[□]
5.	Total Nominal Value:	[□]
6.	Currency of the Notes:	[□]
7.	Annual Interest Rate	[□]
8.	Type of Notes	[□]
9.	Interest payment frequency:	[□]
10.	Interest Payment Dates:	[□]
11.	Money Market Index (if floating interest rate)	[□]
12.	Call Option	[□]
13.	Put Option	[□]
14.	Maturity Date	[□]
15.	Nominal Value Repayment Procedure	[□]
16.	Issue Price:	[□]
17.	Issue Date:	[□]
18.	Minimum Investment Amount:	[□]
19.	Subscription Period:	[□]
20.	First Settlement Date	[□]
21.	Covenants	[□]
22.	Issuing Agent	[□]
23.	Sub-agents of the Issuing Agent	[□]

These Final Terms have been approved by the board of the Issuer at its meeting on [□].

Riga, [□]

AS ELKO Grupa: