ELKO GRUPA AS

Consolidated Annual Report

For the year ended 31 December 2017
Pepared in accordance with International Financial Reporting Standards as adopted by EU

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General information

Group name	ELKO GRUPA AS
Legal status of the Group	Joint Stock Company
Unified registration number, place and date of registration	4 000 312 956 Riga, 14 May, 1993 Re-registration in Commercial register 2 December, 2003 with re-registration number 4 000 312 956 4
Registered office	4 Toma street Riga LV-1003 Latvia
Shareholders	Ashington Business Inc. Limited (1,935,440 shares), United Kingdom Solsbury Inventions Limited (1,928,536 shares), United Kingdom Amber Trust II S.C.A. (1,728,644 shares), Luxembourg Eurotrail SIA (753,833 shares), Latvia Whitebarn SIA (1,072,608 shares), Latvia KRM Serviss SIA (1,049,110 shares), Latvia Solo Investīcijas IT SIA (997,844 shares), Latvia
Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member
Board Members	Egons Mednis – Chairman of the Board with powers to represent the Group individually, President Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Executive Officer Māris Būmanis – Board Member with representation powers jointly with another Board Member from 17 February till 12 April 2017, Chief Financial Officer till 12 April 2017 Aleksandrs Orlovs – Board Member with representation power jointly with another Board Member Officer till 22 June 2017, Business Development Director Mārtiņš Ozoliņš – Board Member with representation powers jointly with another Board Member, Deputy Chief Commercial Director Vadims Rabša – Board Member with representation powers jointly with another Board Member from 22 June 2017, Chief Financial Officer Maxim Stomakhin – Board Member with representation powers jointly with another Board Member from 20 September 2017, Chief Commercial Officer
Reporting year	1 January – 31 December, 2017

Management report

Business activities

AS ELKO Grupa (hereinafter – the Company or ELKO) is one of the largest distributors of IT products in the Central and Eastern Europe. The Company's core business activity is wholesale distribution of IT products such as smartphones and tablets, computer desktop components and peripherals, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO Grupa subsidiaries and cooperation partners. ELKO represents a broad range of vendors from all over the world, including Lenovo, Apple, Intel, Huawei, 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 and increasing competition in all ELKO target markets, the Company in 2017 reached revenue of 1,593 million USD (1,409 million EUR), which was 9,1 % increase comparing to 2016. Gross profit for 2017 was 78,3 million USD (69,2 million EUR), which was 42,1% increase comparing to 2016. The increase in gross margin is mainly related to the restructuring of business model as well as review of product portfolio in Company's main markets.

The net result of the Company for 2017 was 13,8 million USD (12,2 million EUR) comparing to 8,5 million USD (7.7 million EUR) in 2016. The main reason for higher profitability pay back from investments into human resources made in previous periods as well as review and changes made in business model and product portfolio.

Significant events during reporting period

During the first half of 2017, ELKO went through a rebranding process by developing new positioning and a visual identity of its brand. The new logo and the story behind it are the first visible evidence of how ELKO is integrated into the transformation of the industry, improving efficiency and ensuring sustainable development.

In July, the deal for acquisition of an 85% shareholding in Swedish company Gandalf Distribution AB – one of the leading distributors of computer and peripheral products in Sweden was completed. In July, the Company also extended its business presence to Poland by outsourcing a local sales team for the distribution of IT and consumer products. In accordance with the terms of the purchase agreement, the Company has an option to purchase remaining 15% of shares before September 30, 2019.

In 2017 the Company had expanded mobile phone portfolio and regional offering for such brands as ZTE, Alcatel, ASUS, Blackview, as well as achieved significant growth with existing smartphone brands Huawei, Honor, Xiaomi, Apple. During 2017 the Company invested into development of solutions' portfolio in the fields of smart homes, networking, server, security systems, video surveillance. Also, the Company became the official distributor and/or has expanded its business partnerships with number of well-known IT companies.

AS ELKO GRUPA structure

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

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

Financial risk management

Multi-currency risk

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

Management report (continued)

The sales of the Group are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars. The Group monitors the open foreign currency positions and if necessary acquires adequate financing instruments to minimize the risk.

Interest rate risk

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

Credit risk

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

Inventories

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

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Proposed profit distribution

The Board of the Company suggests to transfer the profit to Retained earnings in order to support future investments and maintain financial stability.

Prospects

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

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

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

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

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Egons Mednis
Chairman of the Board,
President
Riga, 20 April, 2018

Statement of Directors' Responsibility

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as of December 31, 2017 and of its financial operations for the year ended 31 December, 2017. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

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

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Egons Mednis
Chairman of the Board,
President
Riga, 20 April, 2018

Consolidated financial statements

Consolidated statements of comprehensive income

	Note	2017 USD'000	2016 USD'000	2017 EUR'000	2016 EUR'000
Sale of goods and services	6; 7	1,593,161	1,459,916	1,408,500	1,319,162
Cost of sales	8	(1,514,836)	(1,404,818)	(1,339,253)	(1,269,377)
Gross profit		**78,325**	**55,098**	**69,247**	**49,785**
Other operating income	9.1	472	276	417	249
Selling and distribution costs	8	(9,810)	(6,566)	(8,673)	(5,933)
Administrative expenses	8	(30,794)	(23,164)	(27,209)	(20,930)
Other operating expenses	9.2	(6,609)	(3,647)	(5,843)	(3,294)
Operating profit		**31,584**	**21,997**	**27,939**	**19,877**
Finance income		547	518	484	468
Finance expenses		(15,894)	(11,669)	(14,053)	(10,544)
Finance income/ (expenses) – net	10	**(15,347)**	**(11,151)**	**(13,569)**	**(10,076)**
				-	-
Profit before tax from continuing operations		**16,237**	**10,846**	**14,370**	**9,801**
Income tax expense	12	(2,404)	(2,316)	(2,126)	(2,093)
Profit (loss) for the year from continuing operations		**13,833**	**8,530**	**12,244**	**7,708**
Attributable to:					
Equity holders of the Company		10,470	8,813	9,271	7,963
Non-controlling interests		3,363	(283)	2,973	(255)
		13,833	**8,530**	**12,244**	**7,708**
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company	13	**1.07**	**0.90**	**0.95**	**0.81**
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange differences on translation of foreign operations		10,935	(991)	(1,912)	1,773
Total comprehensive incomes for the year		**24,768**	**7,539**	**10,332**	**9,481**
Attributable to:					
Equity holders of the Company		19,590	7,998	6,682	9,843
Non-controlling interests		5,178	(459)	3,650	(362)
		24,768	**7,539**	**10,332**	**9,481**

The notes on pages 11 to 57 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Kristīne Paule
Chief accountant

20 April 2018

Consolidated statements of financial position

	Note	31.12.2017	31.12.2016	31.12.2017	31.12.2016
ASSETS		**USD'000**	**USD'000**	**EUR'000**	**EUR'000**
Non-current assets					
Intangible assets	15	912	510	760	484
Property, plant and equipment	16	19,526	2,065	16,449	1,959
Goodwill		1,759	-	1,467	-
Non-current loans	17	-	3,611	-	3,426
		22,197	**6,186**	**18,676**	**5,869**
Current assets					
Inventories	18	187,777	263,968	156,572	250,420
Current income tax receivable	12	3,765	2,307	3,140	2,188
Trade and other receivables and prepayments	19	225,451	197,024	187,986	186,914
Derivative financial instruments	24	167	4	139	3
Cash deposits	20	1,100	1,000	917	949
Cash and cash equivalents	20	33,329	17,543	27,790	16,642
		451,589	**481,846**	**376,544**	**457,116**
Total assets		**473,786**	**488,032**	**395,220**	**462,985**
EQUITY					
Issued capital	21	11,114	11,114	9,785	9,785
Share premium	21	5,996	5,996	4,974	4,974
Translation reserve	21	(3,579)	(12,699)	1,572	4,161
Retained earnings		87,600	81,827	68,163	62,892
Equity attributable to equity holders of the Parent Company		**101,131**	**86,238**	**84,494**	**81,812**
Non-controlling interests in equity		**10,815**	**6,277**	**9,017**	**5,955**
Total equity		**111,946**	**92,515**	**93,511**	**87,767**
LIABILITIES					
Non-current liabilities					
Interest-bearing loans and borrowings	23	7,269	8,452	6,061	8,018
		7,269	**8,452**	**6,061**	**8,018**
Current liabilities					
Trade and other payables	24	208,390	274,464	173,760	260,377
Interest-bearing loans and borrowings	23	144,508	110,947	120,493	105,253
Income tax payable	12	859	576	716	547
Provisions		208	-	174	-
Derivative financial instruments	25	606	1,078	505	1,023
		354,571	**387,065**	**295,648**	**367,200**
Total liabilities		**361,840**	**395,517**	**301,709**	**375,218**
Total equity and liabilities		**473,786**	**488,032**	**395,220**	**462,985**

The notes on pages 11 to 57 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Kristīne Paule
Chief accountant

20 April 2018

Consolidated statement of changes in equity

	Attributable to equity holders of the Parent Company						
	Issued capital	**Share premium**	**Retained earnings**	**Transla-tion reserve**	**Total**	**Non-controlling interests**	**Total equity**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Balance at 1 January 2016	**11,114**	**5,996**	**79,114**	**(11,884)**	**84,340**	**13,499**	**97,839**
Other comprehensive loss	-	-	-	(815)	(815)	(176)	(991)
Profit for the year	-	-	8,813	-	8,813	(283)	8,530
Total comprehensive income for 2016	**-**	**-**	**8,813**	**(815)**	**7,998**	**(459)**	**7,539**
Dividend(note 14)	-	-	(6,100)	-	(6,100)	(6,763)	(12,863)
Balance at 31 December 2016	**11,114**	**5,996**	**81,827**	**(12,699)**	**86,238**	**6,277**	**92,515**
Balance at 1 January 2017	**11,114**	**5,996**	**81,827**	**(12,699)**	**86,238**	**6,277**	**92,515**
Other comprehensive income	-	-	-	9,120	9,120	1,815	10,935
Profit for the year	-	-	10,470	-	10,470	3,363	13,833
Total comprehensive income for 2017	**-**	**-**	**10,470**	**9,120**	**19,590**	**5,178**	**24,768**
Dividend(note 14)	-	-	(4,697)	-	(4,697)	(640)	**(5,337)**
Balance at 31 December 2017	**11,114**	**5,996**	**87,600**	**(3,579)**	**101,131**	**10,815**	**111,946**

	Issued capital	**Share premium**	**Retained earnings**	**Transla-tion 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 2016	**9,785**	**4,974**	**60,429**	**2,281**	**77,469**	**12,399**	**89,868**
Other comprehensive income	-	-	-	1,880	1,880	(107)	1,773
Profit for the year	-	-	7,963	-	7,963	(255)	7,708
Total comprehensive income for 2016	**-**	**-**	**7,963**	**1,880**	**9,843**	**(362)**	**9,481**
Dividend(note 14)	-	-	(5,500)	-	(5,500)	(6,082)	(11,582)
Balance at 31 December 2016	**9,785**	**4,974**	**62,892**	**4,161**	**81,812**	**5,955**	**87,767**
Balance at 1 January 2017	**9,785**	**4,974**	**62,892**	**4,161**	**81,812**	**5,955**	**87,767**
Other comprehensive loss	-	-	-	(2,589)	(2,589)	677	(1,912)
Profit for the year	-	-	9,271	-	9,271	2,973	12,244
Total comprehensive income for 2017	**-**	**-**	**9,271**	**(2,589)**	**6,682**	**3,650**	**10,332**
Dividend(note 14)	-	-	(4,000)	-	(4,000)	(588)	(4,588)
Balance at 31 December 2017	**9,785**	**4,974**	**68,163**	**1,572**	**84,494**	**9,017**	**93,511**

Retained earnings are USD 87,600 thousand or EUR 68,163 thousand (2016: USD 81,827 thousand or EUR 62,892 thousand), of which USD 77 thousand or EUR 63 thousand) (2016: USD 77 thousand or EUR 63 thousand) are statutory reserves and are not available for dividend distribution.

The notes on pages 11 to 57 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board
20 April 2018

Kristīne Paule
Chief accountant

Consolidated statement of cash flows

	Note	2017 USD'000	2016 USD'000	2017 EUR'000	2016 EUR'000
Operating activities					
Profit before tax from continuing operations		16,537	10,846	14,620	9,801
Non-cash adjustments to reconcile profit before tax to net cash flows					
Depreciation of property, plant and equipment	16	1418	829	1,254	749
Amortisation of intangible assets	15	238	10	210	9
Finance income	10	(547)	(518)	(484)	(468)
Finance costs	10	15,894	11,669	14,053	10,544
Fair value (gain)/losses on derivative financial instruments, net		(635)	3,740	(654)	3,686
Movements in provisions and allowances		208	-	174	-
Working capital adjustments:					
Increase in trade and other receivables		(29,885)	(80,291)	(2,024)	(70,062)
Decrease/(Increase) in inventories		76,191	(41,822)	93,848	(28,274)
(Decrease) in trade and other payables		(65,507)	76,113	(96,548)	59,582
Interest received		547	518	484	468
Income tax paid		(2,404)	(2,316)	(2,126)	(2,093)
Net cash flows (used in)/ operating activities		**12,055**	**(21,222)**	**22,807**	**(16,058)**
Investing activities					
Proceeds from sale of property, plant and equipment		43	55	37	52
Purchases of property, plant and equipment	16	(1,310)	(1,395)	(933)	(1,187)
Purchases of intangible assets	15	(236)	(102)	(197)	(97)
Acquisition of a subsidiary		(8,136)	-	(7,129)	-
Proceeds from cash deposits		100	(1,000)	85	(949)
Net cash flows (used in)/from investing activities		**(9,539)**	**(2,442)**	**(8,137)**	**(2,181)**
Financing activities					
Proceeds from bank overdrafts, net		32,378	33,781	13,283	27,653
Dividends paid to equity holders of the parent		(2,574)	(6,100)	(2,164)	(5,500)
Dividends paid to the Minority shareholders		(640)	(6,763)	(588)	(6,082)
Interest paid	10	(15,894)	(11,669)	(14,053)	(10,544)
Net cash flows (used in) / from financing activities		**13,270**	**9,249**	**(3,522)**	**5,527**
Net decrease in cash and cash equivalents		**15,786**	**(14,415)**	**11,148**	**(12,712)**
Cash and cash equivalents at beginning of the year		17,543	31,958	16,642	29,354
Cash and cash equivalents at end of the year		**33,329**	**17,543**	**27,790**	**16,642**

The notes on pages 11 to 57 are an integral part of these consolidated financial statements.

Egons Mednis
Chairman of the Board

Kristīne Paule
Chief accountant

20 April 2018

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 and approved for issue by the Management on 20 April 2018 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**	
		31.12.2017	**31.12.2016**
		%	**%**
ALMA LLC	Russia	100%	100%
ELKO Eesti OU	Estonia	100%	100%
ELKO Lietuva UAB	Lithuania	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%
ELKO Trading Switzerland AG	Switzerland	100%	100%
ELKOTech Romania SRL	Romania	100%	100%
ELKO Kazahstan LLP	Kazahstan	100%	100%
ELKO Ukraine LLC	Ukraine	100%	100%
Gandalf Distribution AB*	Sweden	100%	-
AST Balts SIA**	Latvia	100%	-
ELKO RUS Limited***	Russia	100%	-
ELKOTEX d.o.o.	Slovenia	51%	51%
WESTech s.r.o.	Slovakia	51%	51%
ELKO Mobile Limited	Cyprus	51%	51%
WESTech CZ s.r.o.	Czech Republic	51%	51%
SWISS SPOL s.r.o.****	Slovakia	26%	26%

*In July 2017 ELKO Group AS acquire 85% of shareholding in Gandalf Distribution AB. In accordance with the terms of the purchase agreement, the Company has the call option to purchase 15% of the shares for SEK 6 000 000, which is EUR 609 521 before September 30, 2019
**In July 2017 ELKO Group AS acquire 100% of shareholding in AST Balt
***In August 2017 ELKO Group AS acquire 100% of shareholding in ELKO RUS Limited
**** Parent has control over Swiss spol s.r.o. through controlling interest owned by its subsidiary – WESTech 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 EUR and USD and all values are rounded to the nearest thousand (€/USD'000), except when otherwise indicated.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.

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 except for Gandalf Distribution AB, which has 30.04. as financial year end.
All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or

2.1 Basis of preparation (continued)

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 functional currency is U.S. dollars. The company has decided, in addition to functional currency, also to present the financial statements in presentation currency euro (EUR) as required for filing purposes according to Latvian legislation.
In determination of functional currency Group has considered the following factors:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

(c) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.

(d) the currency in which receipts from operating activities are usually retained.

The following additional factors were considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the Parent:

(a) whether the activities of the foreign operation are carried out as an extension of the Parent, rather than being carried out with a significant degree of autonomy.

(b) whether transactions with the Parent are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the Parent and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the Parent.

Transactions and balances

As the presentation currency differs from the Group's functional currency, it translates its results and financial position into the presentation currency. Based on IAS 21 The Effects of Changes in Foreign Exchange Rates, the results and financial position of an entity shall be translated into a different presentation currency using the following procedures:

(a) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statement presenting profit or loss and other comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognized in other comprehensive income.

2.2 Foreign currency translation (continued)

Group companies
On consolidation the assets and liabilities of foreign operations are translated into Group's functional currency U.S. dollars at the European Central Bank rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised as gain or loss.
Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

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 to end customer. The goods on which the title has not been passed to client are recognized as consignment stock and revenue is recognized only when the respecitve goods are sold to the end customers.

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

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

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

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

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

2.4 Taxes

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

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

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

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

- 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 jurisdictions where the Group Companies are operating are:
Latvia *– 15%
Russia – 20%
Ukraine – 18%
Slovakia – 22%

2.4 Taxes (continued)

Romania – 16%
Cyprus – 12.5%
Switzerland – 7.8%
Kazakhstan – 20%
Slovenia – 19%
Sweden – 22%
Czech Republic – 19%

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

* As of 1 January 2018, the companies are applying a new corporate income tax in Latvia. The companies have to pay the corporate income tax on profit distribution only. The tax rate is considered as 20% of the gross dividend amount. Tax loss can be carried forward in 5 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:

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

Financial assets at fair value through profit or loss
The Group has designated derivative financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

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

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

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

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

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. 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, issued bonds, 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:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has designated derivative financial instruments as at fair value through profit or loss.

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 profit or loss 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.

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

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

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

Fair value of financial instruments
The 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 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• In the principal market for the asset or liability
Or
• In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2.6 Property, plant and equipment

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

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

Property	20 years
Communication and computer engineering	2 years
Other	4-5 years
Leasehold improvements	3-5 years

2.6 Property, plant and equipment (continued)

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 profit or loss 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 profit or loss.

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 profit or loss 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 2017 and 2016 the Group had no acquisition, construction or production of assets qualifying for capitalization of borrowing costs attributed

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 profit or loss in the year in which the expenditure is incurred.
The useful lifes of intangible assets are assessed at 5 years.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the the statement of profit or loss 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 profit or loss in those expense categories consistent with the function of the impaired asset.

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

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 profit or loss 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

2.14 Provisions (continued)

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 Going concern

In 2017 comparing to 2016 financial situation in subsidiaries operating in CIS region has considerably improved. Political situation and economy has stabilized and currently do not show any significant indications of possible crisis. To ensure ability to operate on going concern basis, the management of the Company has identified following main areas to be monitored – market risk in relation to trading volumes, FX risk and maintenance of financing facilities.

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

These consolidated financial statements for the year ended 31 December 2017 are prepared on going concern basis, consistently applying International Financial Reporting Standards as adopted by the European Union.

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 Currency

The Management have evaluated that The Group's functional currency is U.S. dollars as financing activities and the purchase of goods from vendors is by the Parent Company in U.S. dollars, the sales from the Parent Company to its subsidiaries are done in U.S. dollars. The sales to customers are carried out by the subsuduaries in the respective local currencies, except for Elko Trading Switzerland AG, whose sales are done in U.S. dollars.

3.2 Control of subsidiaries

Group consolidate all entities, over which it has a control. Group has a control, when:
- it has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
-has an exposure, or rights, to variable returnsfrom its involvement with the investee;
-has an ability to use its power over the investee to affect the amount of returns.

Based on criteria above the Group have assessed that the group have control over Swiss spol s.r.o. through controlling interest owned by its subsidiary – WESTech s.r.o.

For the list of entities included into the consolidated Group see Note 1.

3.3 Reporting segments

For management purposes, the Group is organised into business units based on Country of residence of its customers.
The Group has three reportable segments, as follows:

- Latvia - country of domicicle;
- Central and Eastern Europe;
- CIS;
- Nordic.

Segments with similar economic characteristics are agregated into a single operating segment. Central and Eastern Europe consists of Slovakia, Slovenia, Romania, Czech Republic; CIS – Russia, Ukraine and Kazakhstan; and, Nordic consists of Sweden.

Aggregating segments the following aspects of similarity were evaluated:
(a) the nature of the products and services;
(b) the nature of the production processes;
(c) the type or class of customer for their products and services;
(d) the methods used to distribute their products or provide their services; and
(e) the nature of the regulatory environment.

For more details on operatins segments see Note 6.

3.4 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.

3.4 Vendor programs (continued)

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2017 amounted to USD 11,740 thousand or EUR 9,789 thousand (2016: USD 11,624 thousand or EUR 11,028 thousand) based on the individual vendor agreements. Vendor programs are recognized as decrease in trade payables (Note 24).

3.5 Income taxes

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

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 12).

3.6 Impairment of inventories

The Group is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most of the Group's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions. In 2017 no impairment on inventory was recognized.

3.7 Impairment of receivables

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

3.8 Warranty provisions

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.

3.9 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).

3.10 Related party transaction compliance

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

4 Changes in accounting standards

4.1 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the by the AS ELKO GRUPA as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments have no effect on the Group's financial statement.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Group has evaluated the amendments and came to conclusion that due to technical limitations there is no possibility to present requested disclosure for the current period. The Group will make necessary system development to present requested Disclousure for the future periods. .

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Groups financial statements.
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  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

4.2 Standards issued but not yet effective and not early adopted

IFRS 9 Financial Instruments: Classification and Measurement
The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.
Based on assessment made by the Management, implementation of the standard is expect to have limited or no impact because the Group has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables, derivatives and bank loans taken. Considering that historically there have been very rare cases of impairments of receivables transferring from incurred credit loss model to expected credit loss model is considered to have limited or no impact to the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance

4.2 Standards issued but not yet effective and not early adopted (continued)

obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.
Management has evaluated standard's requirements and concluded that there will be no changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition. Based on the analysis performed, the Group does not expect impacts on its Consolidated Financial Statements as the Group does not have long-term contracts with multi-element arrangements, no take-or-pay agreements, no sales incentives are provided, no contract costs are generally incurred or upfront payments made, contract modifications are rare etc.

IFRS 15: Revenue from Contracts with Customers (Clarifications)
The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed client contracts and has concluded that implementation of the clarifications will not have an effect on the Group's financial statement.

IFRS 16: Leases
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.
Based on assessment made by the Management, implementation of the standard is expect to have limited or no effect on the Group's financial statements because the Group has no significant lease agreements signed.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has not assessed this amendment yet.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. Management has not assessed this amendment yet.

IAS 40: Transfers to Investment Property (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence

4.2 Standards issued but not yet effective and not early adopted (continued)

of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. Management has assessed these amendments and reached the conclusion, that there will be no effect on Group's financial statement, as Group does not have any of such assets.

IFRS 9: Prepayment features with negative compensation (Amendment)
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. Management has not assessed this amendment yet.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has not assessed this amendment yet.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. Management has not assessed this amendment yet.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures.. Management has not assessed these improvements yet.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. Management has not assessed these improvements yet.

4.2 Standards issued but not yet effective and not early adopted (continued)

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. Management has not assessed these improvements yet.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

5 Financial risk management objectives and policies

5.1 Financial risk factors

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

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

5.1.1 Market risk

Geopolitical risk

Significant part of the Group revenues are generated from sales to Russia and Ukraine as disclosed in Note 6 Information about operating segments (Sales to CIS region of which 99% are covered by Russia and Ukraine). After political crisis in 2014 situation has been stabilized, however, some tension between Russia and Ukraine has remained. After recession in Russia and Ukraine during previous 3 years it is observed slight increase in economy bringing stable increase in GBP and stabilisation of RUB and UAH exchange rates to USD. Annual GDB growth rate in 2017 in Russa and Ukrain is 1.8% and 2.2% respectively. RUB and UAH to USD has increased their value and stayed at the level of 57-60 RUB and 26-28 UAH. In 2018 slight further increase in RUB and UAH value is observed.
Considering that situation in Russia and Ukrain is still unstable, Group has implemented risk mitigation actions. To mitigate foreign currency translation risks the Group is purchasing the financial derivatives. Management is closely monitoring economic situation and developments in East European region.

Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the Russian rouble, Ukrainian hryvna and EUR currencies changes towards the USD. 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 roubles. 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 roubles and its significant weight in the Group's sales result in the fact, that trade payables and receivables have very similar structure in terms of currency composition (Notes 19 and 23).

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk in the amount of USD 36,684 thousand or EUR 30,588 thousand (2016: USD 16,546 thousand or EUR 15,697 thousand).

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

The following table demonstrates the sensitivity to a reasonably possible change of the US dollar exchange rate to other currencies used by the Group, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets, liabilities and translation of equities in subsidiaries). Considering that Group has hedged its foreign currency exchange risks, actual forecasted risk exposure is close to 0.

5.1.1 Market risk (continued)

Increase / decrease in US dollar rate to EUR	Effect on profit USD ('000)	Effect on equity USD ('000)
2017		
+15%	(1,543)	(10,131)
-15%	1,543	10,131
2016		
+5%	(76)	(799)
-5%	76	799

Increase / decrease in US dollar rate to EUR	Effect on profit EUR ('000)	Effect on equity EUR ('000)
2017		
+15%	(1, 362)	(8,447)
-15%	1,362	8,447
2016		
+5%	(287)	(2,222)
-5%	287	2,222

Increase / decrease in US dollar rate to **UAH**	Effect on profit USD ('000)	Effect on equity -
2017		
+15%	(925)	-
-15%	925	-
2016		
+15%	(89)	-
-15%	89	-

Increase / decrease in US dollar rate to **UAH**	Effect on profit EUR ('000)	Effect on equity EUR ('000)
2017		
+15%	(817)	-
-15%	817	-
2016		
+15%	79	-
-15%	(79)	-

Increase / decrease in US dollar rate to **RUB**	Effect on profit USD ('000)	Effect on equity USD ('000)
2017		
+15%	(8,000)	-
-15%	8,000	-
2016		
+5%	(7,066)	-
-5%	7,066	-

5.1.1 Market risk (continued)

Increase / decrease in US dollar rate to RUB	Effect on profit EUR ('000)	Effect on equity EUR ('000)
2017		
+5%	454	-
-5%	(454)	-
2016		
+5%	287	-
-5%	(287)	-

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's current borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. During 2017, the Group's borrowings at variable rates were predominantly denominated in US dollars, Russian roubles and Euro (Note 23).

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

	Increase / decrease in basis points	Effect on profit before tax (USD'000)
2017	+10	+138
	– 10	-138
2016	+10	+58
	– 10	-58

	Increase / decrease in basis points	Effect on profit before tax (EUR'000)
2017	+10	+122
	-10	-122
2016	+10	+55
	– 10	-55

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 2017 is USD 229,217 thousand or EUR 191,127 thousand (2016: USD 219,182 or EUR 207,934 thousand).

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

As at 31 December, 2017 the Group's credit risk exposure to its cooperation partners in CIS region was 26 % of total trade receivables (2016: 28%).

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 2017 based on contractual undiscounted payments in USD'000:

Year ended 31/12/2017	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Non-current borrowings	-	-	-	7,836	7,836
Bonds	-	-	9,718	-	9,718
Current borrowings	-	14,529	125,735	-	140,264
Trade and other payables	-	208,390	-	-	208,390
Derivative financial instruments	-	606	-	-	606
Total financial liabilities	**-**	**223,525**	**125,745**	**7,836**	**366,814**

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

Year ended 31/12/2016	On demand	< 3 months	3 to 12 months	1 to 5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Non-current borrowings	-	-	-	23	23
Bonds	-	-	-	9,108	9,108
Current borrowings	-	5,004	113,709	-	118,713
Trade and other payables	-	274,464	-	-	274,464
Derivative financial instruments	-	1,078	-	-	1,078
Total financial liabilities	**-**	**280,546**	**113,709**	**9,131**	**403,386**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 based on contractual undiscounted payments in EUR'000:

Year ended 31/12/2017	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	6,534	6,534
Bonds	-	-	8,103	-	8,103
Current borrowings	-	12,115	104,839	-	116,954

5.1.3. Liquidity risk (continued)

Year ended 31/12/2017	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Trade and other payables	-	173760	-	-	173,76
Derivative financial instruments	-	505	-	-	505
Total financial liabilities	**-**	**186,380**	**112,942**	**6,534**	**305,856**

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

Year ended 31/12/2016	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	22	22
Bonds	-	-	-	8,640	8,640
Current borrowings	-	4,747	107,873	-	112,620
Trade and other payables	-	260,377	-	-	260,377
Derivative financial instruments	-	1,023	-	-	1,023
Total financial liabilities	**-**	**266,147**	**107,873**	**8,662**	**382,682**

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 26 for further disclosures

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

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

5.3 Capital management

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

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

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

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Parent company financials				
Share capital	11,114	11,114	9,785	9,785
Total equity	67,539	59,287	56,316	56,244
Total equity/ Share capital	**608%**	**533%**	**576%**	**575%**

According to loan covenants the Group's net debt/ equity ratio should not exceed 1. During the year 2016 the Group was in breach of the debt/ equity covenant and has received the waiver letters on covenant breach from all major banks. In year 2017 Group has fulfilled all covenants.

The Group monitors capital using the following ratio:

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Consolidated financials				
Net Debt*	102,025	100,856	85,071	95,680
Total equity	106,518	92,515	88,817	87,767
Net Liabilities/ Equity	**0.96**	**1.09**	**0.96**	**1.09**

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

6 Operating segment information

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

- Latvia - country of domicicle;
- 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;
- Nordic area relates to Sweden.

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 Latvia segment.

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

6 Operating segment information (continued)

The segment results for the year ended 31 December 2017 are as follows:

	Latvia [1)]	Nordic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations [2)]	Group
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Third-party revenue	117,922	48,521	525,380	901,338	-	1,593,161
Inter-segment revenue	347,492	-	14,394	89,119	(451,005)	-
Revenue	**465,414**	**48,521**	**539,774**	**990,457**	**(451,005)**	**1,593,161**
Operating profit / Segment result	8,832	769	9,012	18,347	(5,376)	31,584
Impairment/ reversal of impairment of doubtful debtors	(45)	30	(413)	-	-	(428)

	Latvia	Nordic	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third-party revenue	104,254	42,897	464,484	796,865	-	1,408,500
Inter-segment revenue	313,990	-	13,006	80,527	(407,523)	0
Revenue	**418,244**	**42,897**	**477,490**	**877,392**	**(407,523)**	**1,408,500**
Operating profit / Segment result	7,809	680	7,968	16,237	(4,755)	27,939
Impairment/ reversal of impairment of doubtful debtors	(40)	27	(365)	-	-	(378)

6 Operating segment information (continued)

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

	Latvia	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Third-party revenue	108,393	495,697	855,826	-	1,459,916
Inter-segment revenue	310,084	1,869	110,064	(422,017)	-
Revenue	**418,477**	**497,566**	**965,890**	**(422,017)**	**1,459,916**
Operating profit / Segment result	5,979	12,288	6,313	(2,583)	21,997
Impairment/ reversal of impairment of doubtful debtors	(74)	(74)	(175)	-	(323)

	Latvia	Central and Eastern Europe and other countries	CIS	Adjustments and eliminations	Group
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Third-party revenue	97,943	447,905	773,314	-	1,319,162
Inter-segment revenue	280,187	1,690	99,453	(381,330)	-
Revenue	**378,130**	**449,595**	**872,767**	**(381,330)**	**1,319,162**
Operating profit / Segment result	5,403	11,104	5,704	(2,334)	19,877
Impairment/ reversal of impairment of doubtful debtors	(67)	(67)	(157)	-	(291)

[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 and reflected in "adjustments and eliminations" column.
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 2017 and capital expenditure for the year ended are as follows:

	Latvia[1)]		Nordic [3)]		Central and Eastern Europe		CIS		Adjustments and eliminations [2)]		Group	
	USD' 000	**EUR' 000**	**USD' 000**	**EUR' 000**	**USD' 000**	**EUR' 000**	**USD' 000**	**EUR' 000**	**USD' 000**	**EUR' 000**	**USD' 000**	**EUR' 000**
Inventory	32,226	26,870	7,145	5,958	47,953	39,984	100,453	83,760	-	-	187,777	156,572
Trade and other receivables	37,207	31,025	19,538	16,291	27,666	23,068	140,330	117,010	710	592	225,451	187,986
Other assets	134,361	112,032	975	813	28,974	24,160	84,750	70,666	(188,502)	(157,009)	60,558	50,662
Total Assets	203,794	169,927	27,658	23,062	104,593	87,212	325,533	271,436	(187,792)	(156,417)	473,786	395,220
Liabilities	151,788	126,564	24,509	20,436	56,036	46,724	322,672	269,050	(193,465)	(161,315)	361,540	301,459
Capital expenditure (Note 15)	1	1	-	-	215	180	20	16	-	-	236	198
Amortisation (Note 15)	9	8	2	1	208	184	19	17	-	-	238	210
Capital expenditure (Note 16)	474	347	15	11	678	474	143	101	-	-	1,310	933
Depreciation (Note 16)	896	792	15	13	467	413	40	36	-	-	1,418	1,254

6 Operating segment information (continued)

The segment assets and liabilities at 31 December 2016 and capital expenditure for the year ended are as follows:

	Latvia[1]		Central and Eastern Europe		CIS		Adjustments and eliminations [2]		Group	
	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000	USD' 000	EUR' 000
Inventory	29,342	27,835	68,302	64,797	166,324	157,78	-	-	263,968	250,420
Trade and other receivables	39,319	37,301	28,460	27,002	125,465	119,026	3,780	3,585	197,024	186,914
Other assets	143,534	136,167	17,882	16,964	64,139	60,847	(198,515)	(188,327)	27,040	25,651
Total Assets	212,195	201,303	114,644	108,763	355,928	337,661	(194,735)	(184,742)	488,032	462,985
Liabilities	150,593	142,864	60,247	57,155	279,467	265,124	(94,790)	(89,925)	395,517	375,218
Capital expenditure (Note 15)	2	97	-	-	100	-	-	-	102	97
Amortisation (Note 15)	9	8	1	1	-	-	-	-	10	9
Capital expenditure (Note 16)	517	488	426	336	452	363	-	-	1,395	1,187
Depreciation (Note 16)	388	354	382	340	59	55	-	-	829	749

[1] The majority of the assets and the liabilities relate to Domicile country – Latvia.
[2] In July 2017 ELKO Group AS acquire 85% of shareholding in Gandalf Distribution AB with put call option agreement for residual 15%.
[3] 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.

Management segmentation reporting uses the same IFRS principles described in Note 2 Summary of significant accounting policies above, therefore segmentated revenues, profit, assets and liabilities do not differ from Group's totals.
The distribution of the revenue by the product groups is disclosed in Note 7.

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

6 Operating segment information (continued)

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Segment operating profit	37,360	24,580	32,944	22,211
Adjustments and eliminations	(5,776)	(2,583)	(5,005)	(2,334)
Total Operating profit	**31,584**	**21,997**	**27,939**	**19,877**

Reconciliaton of assets

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Segment operating assets	661,578	682,767	551,637	647,727
Adjustments and eliminations	(187,792)	(194,735)	(156,417)	(184,742)
Total assets	**473,786**	**488,032**	**395,220**	**462,985**

Reconciliaton of liabilities

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Segment operating liabilities	555,005	490,307	462,774	465,143
Adjustments and eliminations	(193,165)	(94,790)	(161,065)	(89,925)
Total liabilities	**361,840**	**395,517**	**301,709**	**375,218**

7 Sale of goods

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Mobile Solutions	220,051	177,478	194,546	160,367
Desktop Solutions	379,329	243,523	335,362	220,044
Smartphones and Tablets	646,604	778,310	571,655	703,271
Server & Security Solutions	175,999	145,267	155,599	131,261
Consumer and Multimedia	137,544	94,982	121,602	85,825
Software	33,634	20,356	29,736	18,394
	1,593,161	**1,459,916**	**1,408,500**	**1,319,162**

8 Cost of sales, Selling and distribution costs and Administrative expenses

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Trade inventory sold	1,514,836	1,404,818	1,339,253	1,269,377
Employee benefit expense (Note 11)	17,856	13,386	15,786	12,096
Rent and office maintenance expenses	5,257	3,842	4,648	3,472
Warehousing expenses	2,136	1,455	1,889	1,315
Transportation expenses	4,349	3,366	3,845	3,041
Advertising costs	2,338	1,013	2,067	915
Professional fees*	1,762	1,409	1,558	1,273
Depreciation and amortisation charges (Notes 15, 16)	1,656	839	1,464	758
Write-off of damaged goods (Note 18)	282	308	249	278
Other expenses	4,968	4,112	4,376	3,715
	1,555,340	**1,434,548**	**1,375,135**	**1,296,240**

*Including fees paid to the audit firm for annual audit: 128 thousand EUR and for tax services: 48 976 thousand EUR 2017

9 Other income/expenses

9.1 Other operating income

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Net gain from foreign exchange	-	-	-	-
Income from services provided	367	144	324	130
Net Income from sale of property, plant and equipment	47	55	42	50
Other income	58	77	51	69
	472	**276**	**417**	**249**

9.2 Other operating expenses

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Allowance for bad debts (Note 19)	(428)	(323)	(378)	(291)
Net loss from foreign exchange influence	(5,821)	(3,311)	(5,147)	(2,991)
Intellectual fee (Sweden)	(239)	-	(211)	-
Other expenses	(121)	(13)	(107)	(12)
	(6,609)	**(3,647)**	**(5,843)**	**(3,294)**

10 Finance income and costs

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Interest expense:				
– Bank and bond borrowings	(15,503)	(11,316)	(13,707)	(10,225)
– Other interests	(391)	(353)	(346)	(319)
Finance costs	**(15,894)**	**(11,669)**	**(14,053)**	**(10,544)**
Finance income:				
– Interest income on short-term bank deposits	134	241	118	218
– Penalties and other interest income	413	277	366	250
Finance income	**547**	**518**	**484**	**468**
Net finance costs	**(15,347)**	**(11,151)**	**(13,569)**	**(10,076)**

11 Employee benefit expense

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Wages and salaries	13,619	10,360	12,042	9,362
Social security costs	3,774	2,441	3,337	2,206
Other employment benefits	463	585	407	528
	17,856	**13,386**	**15,786**	**12,096**

Employees involved in the sales functions are subject to a partial variable remuneration based on the sales performance.
All personal expenses have been charged in statement of comprehensive income and are shown in administrative expenses.

12 Income tax

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

Consolidated statement of comprehensive income

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Current income tax:				
Current income tax charge	2,404	2,316	2,126	2,093
Deferred tax :				
Relating to origination and reversal of temporary differences	-	-	-	-
	2,404	**2,316**	**2,126**	**2,093**

Consolidated statement of financial position

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Current income tax receivable	3,765	2,307	3,140	2,188
Current income tax payable	(859)	(576)	(716)	(547)
Current income tax receivable, net	**2,906**	**1,731**	**2,424**	**1,641**

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:

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Accounting profit before income tax	**16,237**	**10,846**	**14,370**	**9,801**
At Latvia's statutory income tax rate of 15%	2,436	1,627	2,156	1,470
Effect of different tax rates in other countries	(800)	(298)	(707)	(270)
Unrecognized deferred tax asset, net*, **	681	972	603	879
Expenses not deductible for tax purposes	42	15	37	14
Tax charge	**2,404**	**2,316**	**2,126**	**2,093**

* Deferred Tax Asset is not to be recognized following the concept of prudence
**Deferred tax asset consist of carried forward tax loses

The summary of unused tax losses are as follows:
154 thousand USD (184 thousand EUR) that can be used till 2026
10,641 thousand USD (8,873 thousand EUR) that can be used till 2024
7,390 thousand USD (6,162 thousand EUR) that can be used till 2021

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.

13 Earnings per share (continued)

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

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Profit attributable to equity holders of the Parent Company	10,470	8,813	9,271	7,963
Weighted average number of ordinary shares in issue (thousand)	9,785	9,785	9,785	9,785
Basic earnings per share (EUR/USD per share)	1.07	0.90	0.95	0.81

14 Dividends per share

During the year the Company has paid out dividends on prior year retained earnings in amount of USD 4,697 thousand or EUR 4,000 thousand (USD 0.48 or EUR 0.41 per share) (prior year USD 6,100 thousand or EUR 5,500 thousand).

15 Intangible assets

	Software		Goodwill		Total	
At 31 December 2015	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**
Cost	590	542	327	300	917	842
Accumulated amortisation	(479)	(440)	-	-	(479)	(440)
Net book amount at 31 December 2015	**111**	**102**	**327**	**300**	**438**	**402**
2016						
Opening net book amount	111	102	327	300	438	402
Exchange differences	(9)	(6)	(11)	-	(20)	(6)
Additions	102	97	-	-	102	97
Amortisation charge	(10)	(9)	-	-	(10)	(9)
Closing net book amount at 31 December 2016	194	184	316	300	510	484
At 31 December 2016						
Cost	692	639	316	300	1008	939
Accumulated amortisation	(498)	(455)	-	-	(498)	(455)
Net book amount at 31 December 2016	**194**	**184**	**316**	**300**	**510**	**484**

15 Intangible assets (continued)

2017						
Opening net book amount	**194**	**184**	**316**	**300**	**510**	**484**
Exchange differences	-	-	44	-	44	-
Additions	236	197	-	-	236	197
Disposals/reclasification	(2)	(1)	-	-	(2)	(1)
Changes in consolidated Group (cost)	890	679	1,759	1,467	2,649	2,146
Changes in consolidated Group (accumulated amortisation)	(528)	(389)	-	-	(528)	(389)
Amortisation charge	(238)	(210)	-	-	(238)	(210)
Closing net book amount 31 December 2017	**552**	**460**	**2,119**	**1,767**	**2,671**	**2,227**
At 31 December 2017						
Cost	1,816	1,514	2,119	1,767	3,935	3,281
Accumulated amortisation	(1,264)	(1,054)	-	-	(1,264)	(1,054)
Net book amount at 31 December 2017	**552**	**460**	**2,119**	**1,767**	**2,671**	**2,227**

Amortisation expenses of intangible assets in the amount of USD 238 thousand or EUR 210 thousand (2016: USD 10 thousand or EUR 9 thousand) have been charged in statement of profit or loss and are shown in administrative expenses. The cost of fully amortised intangible assets at 31 December 2017 was USD 423 thousand or EUR 353 thousand (2016: USD 290 thousand or EUR 275 thousand).

On 2 June 2015, AS ELKO Grupa signed an agreement with DL Distributors OU on the acquisition of DELL business in Estonia for the amount of EUR 300,000. With the acquisition of "DL Distributors" OU business, ELKO Group expand its product portfolio in the Baltics and was granted with DELL distribution rights also in Latvia and Lithuania. Goodwill is the purchase price paid for distribution rights. Goodwill is reviewed annually by reviewing DELL product turnover, gross margin and operating profit margin for DELL products.
All intangible assets have been pledged to secure bank credit lines (Note 23).

16 Property, plant and equipment

	Property		Leasehold improve- ments		Communication and computer engineering		Other fixed assets		Total	
	USD	EUR	USD	EUR	USD	EUR	USD	EUR	USD	EUR
At 31 December 2015	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**
Cost	-	-	59	54	1625	1492	2614	2400	4298	3946
Accumulated depreciation	-	-	(44)	(40)	(1,281)	(1,176)	(1,494)	(1,372)	(2,819)	(2,588)
Net book amount at 31 December 2015	-	-	**15**	**14**	**344**	**316**	**1120**	**1028**	**1479**	**1358**
2016										
Opening net book amount	-	-	15	14	344	316	1120	1028	1,479	1,358
Exchange differences	-	-	31	30	(22)	(1)	13	135	22	164
Additions	-	-	62	57	353	321	980	809	1,395	1,187
Disposals at cost	-	-			(2)	(1)			(2)	(1)
Depreciation reversal on disposals	-	-	-	-	-	-	-	-	-	-
Depreciation charge	-	-	(25)	(23)	(306)	(287)	(498)	(439)	(829)	(749)
Closing net book amount at 31 December 2016	-	-	**83**	**78**	**367**	**348**	**1615**	**1533**	**2065**	**1959**
At 31 December 2016										
Cost	-	-	152	141	1,956	1,812	3,607	3,344	5,715	5,297
Accumulated depreciation	-	-	(69)	(63)	(1,589)	(1,464)	(1,992)	(1,811)	(3,650)	(3,338)
Net book amount at 31 December 2016	-	-	**83**	**78**	**367**	**348**	**1615**	**1533**	**2065**	**1959**
2017										
Opening net book amount	-	-	83	78	367	348	1615	1533	2,065	1,959
Exchange differences	-	-	(8)	-	(26)	(126)	240	370	206	244
Additions	-	-			562	432	748	501	1,310	933
Disposals at cost	-	-			-	-	(17)	(16)	(17)	(16)
Changes in consolidated Group (cost)	20,240	17,044	87	58	628	483	563	258	21,518	17,843
Changes in consolidated Group (accumulated depreciation)	(3,505)	(2,904)	(66)	(53)	(498)	(253)	(69)	(50)	(4,138)	(3,260)
Depreciation charge	(374)	(330)	(45)	(40)	(478)	(422)	(521)	(462)	(1,418)	(1,254)
Closing net book amount 31 December 2017	**16,361**	**13,810**	**51**	**43**	**555**	**462**	**2,559**	**2,134**	**19,526**	**16,449**
At 31 December 2017										
Cost	20,240	17,044	239	199	3,120	2,601	4,901	4,087	28,500	23,931
Accumulated depreciation	(3,879)	(3,234)	(188)	(156)	(2,565)	(2,139)	(2,342)	(1,953)	(8,974)	(7,482)
Net book amount at 31 December 2017	**16,361**	**13,810**	**51**	**43**	**555**	**462**	**2,559**	**2,134**	**19,526**	**16,449**

16 Property, plant and equipment (continued)

Depreciation expenses of tangible assets in the amount of USD 1,418 thousand or EUR 1,254 thousand (2016: USD 829 thousand or EUR 749 thousand) have been charged in statement of profit or loss and are shown in administrative expenses.

The cost of fully depreciated property, plant and equipment at 31 December 2017 was USD 1,663 thousand or EUR 1,387 thousand (2016: USD 1,156 thousand or EUR 1,097 thousand).

All tangible assets have been pledged to secure bank credit lines (Note 23).

Finance leases

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2017 was USD 95 thousand or 79 EUR thousand (2016: USD 55 thousand or EUR 52 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

17 Non current loans

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Loan to AST Balt *	-	3,611	-	3,426
	-	**3,611**	**-**	**3,426**

* Elko Group AS issued a loan to AST Balt in amount of 3,426 million EUR on 26 November 2015. (Note 26.2.) The interest rate is 5% and maturity date is 31 August 2020. Fair value is disclosed in Note 26. In July 2017 ELKO Group AS acquire 100% of shareholding in AST Balt.

18 Inventories

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Trade inventory	165,686	234,323	138,152	222,297
Trade inventory in transit	14,965	29,550	12,478	28,033
Prepayments for trade inventory	7,126	95	5,942	90
Total inventories at the lower of cost and net realisable value	**187,777**	**263,968**	**156,572**	**250,420**

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.

The cost of inventories recognised as expense and included in cost of sales amounted to USD 1,704,634 thousand or EUR 1,507,052 thousand (2016: USD 1,567,663 thousand or EUR 1,416,522 thousand). All inventories except for trade inventory on which the legal title of goods have not been passed from vendors to the Group (USD 9,293 thousand (2016: 9,910 thousand) or EUR 7,749 thousand (2016: EUR 9,401 thousand) and trade inventory in transit have been pledged to secure bank credit lines (Note 23).

Of the total inventories consignment inventories as at 31 December 2017 were USD 30,054 thousand or EUR 26,851 thousand (2015: USD 92,786 thousand or EUR 88,023 thousand).

19 Trade and other receivables and prepayments

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Trade receivables	203,246	171,016	169,470	162,239
Less: allowance for impairment of trade receivables	(727)	(229)	(606)	(217)
Trade receivables – net	**202,519**	**170,787**	**168,864**	**162,022**
Advances to suppliers	1,193	19,261	995	18,273
VAT receivable	18,727	3,521	15,615	3,340
Other debtors	1,985	2,464	1,656	2,338
Custom prepayments	611	528	509	501
Debt on factoring	-	285	-	271
Bond commissions	51	101	43	96
Other tax receivable in foreign countries	316	58	263	55
Accrued income	49	19	41	18
	225,451	**197,024**	**187,986**	**186,914**

All trade receivables have been pledged to secure bank credit lines (Note 23).

Trade receivables are non-interest bearing and are generally on 7-90 days' terms.
There are 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
31.12.2017. USD '000	202,519	185,208	16,761	122	428
31.12.2016. USD '000	170,787	168,257	2,398	87	45
31.12.2017. EUR '000	168,864	154,429	13,976	102	357
31.12.2016. EUR '000	162,022	159,622	2,275	83	42

Based on subsequent evaluation of further business performance of the debtors and continuing incoming cash flows from the respective non-impaired receivables, the management noted that no impairment is necessary.

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

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
At 1 January	229	340	217	312
Impairment charge	428	323	378	291
Used allowances	269	(434)	177	(386)
At 31 December	**926**	**229**	**772**	**217**

19 Trade and other receivables and prepayments (continued)

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 deposits, cash and cash equivalents

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. USD '000	31.12.2016. EUR '000
Cash at banks and on hand	33,329	17,543	27,790	16,642
Deposits more than 3 months	1,100	1,000	917	949
	34,429	**18,543**	**28,707**	**17,591**

All cash and cash deposits have been pledged to secure bank credit lines (Note 23) 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 (2016: 9,785 thousand shares) with a par value of USD 1.1358 or EUR 1.00 per share (2016: USD 1.1358 or EUR 1.00 per share). All issued shares are fully paid. There were no share options outstanding for any of the years presented. All issued shares were purchased by cash contribution.

21.2 Share Premium

During 2005 share capital was increased, attracting new shareholders. As a result of share capital increase and attraction of new shareholders, share premium reserve in the amount of USD 5,996 or EUR 4,974 thousand was created.

21.3 Foreign currency translation reserve

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

22 Investment

In July 2017 ELKO Group AS acquire 85% of shareholding in Gandalf Distribution AB. In accordance with the terms of the purchase agreement, the Company has the call option to purchase 15% of the shares for SEK 6 000 000, which is EUR 609 521 before September 30, 2019
The Group acquired Gandalf Distribution AB because it significantly enlarges the range of products and Elko Group presence on the Nordic market.

Group has elected to measure non-controlling interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

At the date of authorising for issue the financial statements, the Group has not yet finalized the identification process for intangible assets from the business combinations of other acquired companies listed below - therefore respective net assets and goodwill recognized in the financial statements are provisional. The financial statements include the results of acquired companies from acquisition date till the end of reporting period.

Assets acquired and liabilities assumed

The identifiable assets and liabilities of Gandalf Distribution AB as at the date of acquisition were:

	USD	EUR
ASSETS	**19,607**	**17,181**
NON CURRENT ASSETS	**73**	**64**
Intangible assets	6	5
Property plant and equipment	67	58
CURRENT ASSETS	**19,535**	**17,118**
Inventories	6,075	5,323
Trade debtors	12,046	10,556
Other debtors	976	855
Corporate income tax	277	243
Cash and cash equivalents	160	141
		-
LIABILITIES	**16,491**	**14,450**
Interest-bearing loans and borrowings	376	330
Other financing	7,358	6,448
Trade accounts payable	5,883	5,155
Other current liabilities	2,740	2,401
Corporate income tax	133	117
		-
Total identifiable net asstes	**3,116**	**2,731**
Goodwill arising on acquisition	1,759	1,541
Purchase consideration transferred	4,027	3,529

The goodwill of USD1,759 thousand comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Goodwill is allocated entirely to Gandalf Distribution AB business.
Due to the contractual terms imposed on acquisition, the customer list is not separable. Therefore, it does not meet the criteria for recognition as an intangible asset under IAS 38. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, Gandalf Distribution AB contributed USD 672 thousand to profit before tax from continuing operations of the Group.

In July 2017 ELKO Group AS acquire 100% of shareholding in AST Balt. The Group has acquired AST Balt in order to diversify its business, as well as to have more control over administration of its office premises.

AST Balt purchase in consolidated financial statement is treated as asset purchase. Assets and liabilities at acquisition are valued at Fair Value. Goodwill is allocated to separately identifiable assets and liabilities. As it is considered that financial assets and liabilities are presented at Fair Value, goodwill is allocated to real estate.

22 Investment (continued)

Purchase price allocation at acquisition:

	Fair value		%	AST Balt at acquisition		Purchase price allocation	
	EUR	**USD**		**EUR**	**USD**	**EUR**	**USD**
Intangible assets	35	40	0%	35	40	35	40
Trade receivables	285,726	326,071	2%	285,726	326,071	285,726	326,071
Investment properties	14,665,000	16,735,698	365%	10,664,817	12,170,689	14,142,816	16,139,782
Inventory	1,776	2,027	0%	1,776	2,027	1,776	2,027
Cash and cash equivalent	8,084	9,225	0%	8,084	9,225	8,084	9,225
Other payables	(29,980)	(34,213)	0%	(29,980)	(34,213)	(29,980)	(34,213)
Deferred income	(87,750)	(100,140)	-2%	(87,750)	(100,140)	(87,750)	(100,140)
Trade payables	(328,876)	(375,313)	-1%	(328,876)	(375,313)	(328,876)	(375,313)
Other loans	(3,612,231)	(4,122,278)	-90%	(3,612,231)	(4,122,278)	(3,612,231)	(4,122,278)
Loans from credit institution	(6,779,600)	(7,736,880)	-175%	(6,779,600)	(7,736,880)	(6,779,600)	(7,736,880)
Total	**4,122,184**	**4,704,236**	**100%**	**122,001**	**139,228**	**3,600,000**	**4,108,320**

In August 2017 ELKO Group AS acquire 100% of shareholding in ELKO RUS Limited, to divide out solution business to the separate Company. Assets and liabilities of the Company were measured at Fair value. Purchase consideration transferred in amount of USD 42 963 (EUR 35 824) corresponded to the Fair value of net assets; therefore, no Goodwill has arisen at acquisition.

	Fair value at acquisition, USD	Fair value at acquisition, EUR
Other receivables	385	328
Cash and cash equivalent	41,505	35,395
Trade receivables	160	136
Tax payables	438	373
Other payables	1,362	1,162
Net assets	**40,250**	**34,324**

23 Interest-bearing loans and borrowings

Current	Interest rate %	Maturity	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Obligations under finance lease	EURIBOR3M +2.62%-4.5%	2018./2021.	42	77	35	73
Bonds*	8%	16.10.2018.	9,594	-	8,000	-
Bank loans and credit lines						
Credit line from Swedbank (USD facility)	USD LIBOR3M +4.5%	05.11.2018.	110	731	92	694
Credit line from Luminor Bank	Overnight LIBOR USD/EONIA EUR +3.55%	31.07.2018.	8,215	23,229	6,850	22,036
Credit line from AS SEB Banka	USD LIBOR3M +3.45%	31.07.2018.	3,863	24,839	3,221	23,564
Credit line from OP Corporate Bank plc	USD LIBOR3M +3.1%	25.07.2018.	14,984	14,968	12,494	14,200
Credit line from Transilvania Bank (Romania)	RON ROBOR6M +2.5%	29.03.2018.	9,628	8,691	8,028	8,245
Credit line from Transilvania Bank (Romania)	RON ROBOR6M +2.5%	11.10.2018.	676	791	564	751
SKB Bank d.d. (Slovenia)	EURIBOR1M +1.1%	13.10.2018.	840	369	700	351
NLB Bank d.d. (Slovenia)	1.5%	20.06.2018.	359	-	300	-
Credit line Transcapital bank (Russia)	8.75%	28.12.2018.	17,283	-	14,411	-
Credit line Sberbank (Russia)	8.9-9.2%	02.10.2018./ 08.02.2019	29,899	-	24,930	-
Trade finance facility (Russia)	9.87-12%	28.12.2018.	14,539	16,393	12,123	15,552
Trade finance facility JSC OTP Bank (Ukraine)	21.67-22.06%	29.03.2019.	3,580	4,459	2,984	4,230
Credit line CREDIT AGRICOLE Bank (Ukraine)	14%	29.10.2018.	913	-	761	-
UkrSibbank (Ukraine)	13%	06.09.2018.	911	-	759	-
Promsvyazbank PJSC Cyprus Branch (Russia)	8%-20%	31.08.2018.	-	16,394	-	15,552
Credit line from Danske Bank (Sweden)	DBU+1.84%	31.12.2018.	1,421	-	1,185	-
Trade finance facility Danske Bank (Sweden)	DANBOR+1.82% -2.15%	31.12.2018.	11,630	-	9,697	-
Trade Finance program Deutche Bank	3.75%	17.09.2018	15,416	-	12,854	-
OP Corporate Bank plc. (Latvia)	EURIBOR3M +2.6%	22.12.2020.	598	-	499	-
Other loans:						
Other - credit cards			7	6	6	5
			144,508	**110,947**	**120,493**	**105,253**

23 Interest-bearing loans and borrowings (continued)

Non-current

Bonds *	8%	16.10.2018.	-	8,433	-	8,000
Bank borrowings- OP Corporate Bank plz	EURIBOR3M +2.6%	22.12.2020.	7,233	-	6,031	-
Obligations under finance lease and hire purchase contracts	EURIBOR3M +2.62-4.5%%	2018./2021.	36	19	30	18
			7,269	**8,452**	**6,061**	**8,018**
			151,777	**119,399**	**126,554**	**113,271**

* On 16 October, 2015 the Company issued the bonds for EUR 8 million, with maturity on 16 October, 2018. Coupon rate of the bonds is 8% per annum. At the year end debt securities (bonds) are recorded at nominal value, which do not deviate materialy from amortised costs. Fair value is disclosed in Note 26.
On March 21, 2016, the Company listed the bonds on NASDAQ stock exchange in Riga.

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

	31.12.2017. USD '000	**31.12.2016. USD '000**	**31.12.2017. EUR '000**	**31.12.2016. EUR '000**
USD	27,172	59,697	22,656	56,633
RUB	61,721	32,787	51,464	31,104
EUR	18,709	12,937	15,600	12,274
RON	10,304	9,482	8,592	8,995
UAH	5,404	4,496	4,506	4,265
SEK	13,051	-	10,882	-
	136,361	**119,399**	**113,700**	**113,271**

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 2017 was 6.5% (2016: 6.1%). Fair values are disclosed in Note 26

As at December 31, 2017 the Group had following undrawn available financing facilities:

	USD'000	**EUR'000**
BANCA TRANSILVANIA (Romania)	1,899	1,583
Credit line from Luminor Bank	22,284	18,581
Credit line from OP Corporate Bank plc Latvia	16	14
Credit line from AS SEB Banka	11,131	9,281
Credit line from AS SWEDBANKA	7,390	6,162
Credit line from Danske bank	1,016	847
Credit line from Československá obchodní banka a.s. (Slovakia)	1,174	979
Credit line from Sbervank (Russia)	25,406	21,184
Credit line from NLB D.D. (Slovenia)	480	400
	70,796	**59,031**

24 Trade and other payables

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Trade payables	167,029	256,757	139,272	243,579
Advances received	22,183	11,628	18,497	11,031
Social security and other taxes	5,225	1,958	4,357	1,858
Dividends	2,202	-	1,836	-
Unpaid salaries	277	327	231	310
Accrued expenses	5,690	1,799	4,745	1,707
Other	5,784	1,995	4,822	1,892
	208,390	**274,464**	**173,760**	**260,377**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 90 day terms;
- Other payables are non-interested bearing and have an average term of 30 days;
- Interest payable is normally settled monthly throughout the financial year;
- For terms and conditions relating to related parties, refer to Note 26.

25 Derivative financial assets and financial liabilities

25.1 Financial assets

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Financial instruments at fair value through profit or loss				
Derivatives not designated as hedges - Foreign exchange forward contracts	167	4	139	3
Total instruments at fair value through profit or loss	**167**	**4**	**139**	**3**

	31.12.2017. USD '000	31.12.2016. USD '000	31.12.2017. EUR '000	31.12.2016. EUR '000
Total financial assets	**167**	**4**	**139**	**3**

On December 31, 2017 Group was entered into foreign exchange forward contracts for the sale of RUB against USD 1,401million RUB amount (RUB 1,777 million in 2016) with an average term of 26 days and the sale of RON against USD 16.0 million RON amount (in 2016 RON 17 million) with a maturity of 23 March 2017. Foreign exchange forward contracts are valued at the fair value which is calculated at market rates.
2017 derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

25 Derivative financial assets and financial liabilities (continued)

25.2 Financial liabilities

	2017 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
Financial instruments at fair value through profit or loss				
- Foreign exchange forward contracts	(606)	(1,078)	(505)	(1,023)
Total instruments at fair value through profit or loss	**-**	**-**	**-**	**-**

	31.12.2017 USD '000	31.12.2016 USD '000	31.12.2017 EUR '000	31.12.2016 EUR '000
Total financial liabilities	**606**	**1,078**	**505**	**1,023**

26 Fair value measurement

Fair value measurement hierarchy as at 31 December 2017

				Fair value measurement using					
	Date of valuation	Total		Quoted prices in active markets		Significant observable inputs		Significant unobservable inputs	
Financial liabilities for which fair values are disclosed:				(Level 1)		(Level 2)		(Level 3)	
		USD '000	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**
Assets measured at fair value:									
Financial instrumentss (Note 25)	31 December 2017	169	141	-	-	-	-	169	141
Liabilities measured at fair value:									
Derivative financial instruments (Note 25)	31 December 2017	606	505	-	-	606	505	-	-
Liabilities for which fair value is disclosed:									
Bonds (Note 23)	31 December 2017	9,718	8,103	-	-	9,718	8,103	-	-
Obligations under finance lease (Note 23)	31 December 2017	80	67	-	-	80	67	-	-
Bank loans and credit line (Note 23)	31 December 2017	136,538	113,849	-	-	136,538	113,849	-	-

26 Fair value measurement (continued)

Fair value measurement hierarchy as at 31 December 2016

	Date of valuation	Total		Fair value measurement using					
				Quoted prices in active markets (Level 1)		Significant observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
Financial liabilities for which fair values are disclosed:		**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**	**USD '000**	**EUR '000**
Assets measured at fair value:									
Loans (Note 17)	31 December 2016	3,611	3,426	-	-	-	-	3,611	3,426
Liabilities measured at fair value:									
Derivative financial instruments (Note 25)	31 December 2016	1,078	1,023	-	-	1,078	1,023	-	-
Liabilities for which fair value is disclosed:									
Bonds (Note 23)	31 December 2016	9,108	8,640	-	-	9,108	8,640	-	-
Obligations under finance lease (Note 23)	31 December 2016	96	91	-	-	96	91	-	-
Bank loans and credit line (Note 23)	31 December 2016	110,870	105,271	-	-	110,870	105,271	-	-

There is no transfer between L1 and L2 during 2017.

27 Related party disclosures

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

	% of Share Capital			
	31.12.2017. USD	**31.12.2016. USD**	**31.12.2017. EUR**	**31.12.2016. EUR**
Ashington Business Inc. Ltd, domiciled in the United Kingdom	19.78	19.78	19.78	19.78
Solsbury Inventions Ltd, domiciled in the United Kingdom	19.71	19.71	19.71	19.71
Amber Trust II S.C.A., domiciled in Luxemburg	17.67	17.67	17.67	17.67
Eurotrail SIA, domiciled in Latvia	10.96	10.96	10.96	10.96
Whitebarn SIA, domiciled in Latvia	10.96	10.96	10.96	10.96
KRM Serviss, SIA, domiciled in Latvia	10.72	10.72	10.72	10.72
Solo investīcijas, SIA, domiciled in Latvia	10.20	10.20	10.20	10.20

27 Related party disclosures (continued)

27.1 Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of USD 380 thousand or EUR 336 thousand (2016: USD 299 thousand or EUR 271 thousand).

The Board members' remuneration:	2016 USD '000	2016 USD '000	2017 EUR '000	2016 EUR '000
- salary expenses	311	242	275	219
- social insurance	69	57	61	52
	380	**299**	**336**	**271**

27.2 Transactions with related parties

The services in the amount of USD 1,313 thousand or EUR 1,161 thousand (2016: USD 1,712 thousand or EUR 1,549 thousand) were provided by AST BALTS that are controlled by some of the shareholders of the Group. In July 2017 ELKO Group AS acquired 100% of shareholding in AST Balt.

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
AST Balts SIA**	**2017 USD '000**	858	-	-	-
	2017 EUR '000	759	-	-	-
	2016 USD '000	1,712	21	-	3,611
	2016 EUR '000	1,549	20	-	3,426
KRM Serviss SIA	**2017 USD '000**	684	-	-	-
	2017 EUR '000	612	-	-	-
Eurotrail SIA	**2017 USD '000**	684	-	-	-
	2017 EUR '000	612	-	-	-
Solo Investīcijas SIA	**2017 USD '000**	684	-	-	-
	2017 EUR '000	612	-	-	-
Astoņdesmit astoņi SIA*	**2017 USD '000**	684	-	-	-
	2017 EUR '000	612	-	-	-
Solsbury Inventions Limited	**2017 USD '000**	644	-	-	-
	2017 EUR '000	576	-	-	-
Ashington Businesss Inc. Limited	**2017 USD '000**	644	-	-	-
	2017 EUR '000	576	-	-	-

* Astoņdesmit astoņi SIA is related to shareholder.

27 Related party disclosures (continued)

27.3 Transactions with related parties

** Accordingly the Group has entered into an agreement with related party AST BALTS for rent of warehousing and office space. The respective office premises were completed in Q1 2011. As as ELKO Group AS acquire 100% of shareholding in AST Balt in July 2017. Transactions are shown for period from 1st January 2017 Till 30th June 2017.

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

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

28 Commitments and contingencies

28.1 Operating lease commitments – Group as lessee

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

28.2 Guarantees and pledges

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

29 Events after the reporting period

On April 12, 2018, the OP Corporate Bank plz Latvia Branch resolved to extend the AS ELKO Grupa overdraft contract for 12 months from the moment of signing the contract amendments.

On April 13, 2018, AS Swedbank decided to extend the term of the AS "ELKO Grupa" credit line until July 5, 2019.

On April 13, 2018, AS SEB banka decided to extend the term of the credit line of AS ELKO Grupa until 31 July 2019.

On April 13, 2018, AS Luminor Bank decided to extend the last repayment date of AS ELKO Grupa overdraft agreement until 31 July 2019.

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 2017.

Egons Mednis Chairman of the Board	Kristīne Paule Chief accountant

20 April 2018

Consolidated integrated non-financial report

Group's Vision

The Group is and will be the leading distributor in the region.

Group's Vision is to be a preferred long-term partner in the market.

The advance of new technologies transforms the societies of regions represented and Group continually encounters new opportunities and challenges. The product's journey to the customer requires a new approach and attitude.

One thing that has come to fore for the Group, as a bridge between Western and Asian suppliers and 24 different markets in Europe and Central Asia, is the necessity to transform knowledge exchange. Separate communication between the Group, each of its distributors, 210 suppliers and 7000 customers are not working any more. Group need to merge all these channels into knowledge sharing ecosystems that require a new level of openness, both internally and externally.

Group intend to achieve this by bringing in a new set of values. Learning is a must. Collaboration is essential. Group believes it must start by mixing and matching more than 20,000 products it offers in the one collective mind. Group must pool its individual knowledge and share it inside and with its stakeholders. Group must passionately pursue the reliability of the solutions it offer and work to fulfil its customers' ambitions.

Group's values

Collaboration.
This is about ability to bring people together, consolidate knowledge and make big things happen, develop and aggregate innovations.

Reliability.
Group keep promises, is professional, its reputation matters, it has the right
attitude and take responsibility for the results of work.

Knowledge sharing.
It is a learning process, competence development, way how Group link the knowledge fields of its partners. Group's opportunity is to share knowledge, create new experiences and reinvent the role of its distributors.

Passion.
Group is looking for shared passion for technologies, which is about being creative and inventive, having the energy and dynamics to make it happen and share it with internal and external world.

Advancement.
This is not financial figures, positions in a best of the best tops or awards and recognitions received, but sustainable business built on trust and brand value.

Positioning.
Positioning is an umbrella for Group's tactics and operations. Strategic priorities should be decided through the prism of Positioning.
Group need to unite its team and continue journey where each and every leaves a significant mark in building great things.

Group's role

Group's role as a distributor is to link the unique knowledge of its partners and make it readily accessible to the customers:

- For resellers, Group provide an extensive IT product range with excellent customer service.
- For solution providers - ensure the necessary competence and capacity to solve unique business challenges.
- For enterprises – insure match between customers' needs, the latest technologies and the best solutions

Management and control in organization

Group complies with the Group 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, Group pays great attention to ensuring the transparency of business, personnel training, improving the quality of services, and provision of high-quality services. Group plans to continue improving its corporate governance practice in accordance with internationally accepted practice.
The main managerial units of the Group's Parent company (Company) are (1) the General Shareholders' meeting, (2) the Council, (3) the Board, (4) the Audit Committee and (5) the Management.

General Shareholders' meeting

The General Meeting of Shareholders shall be entitled to pass resolutions, provided more than a half of the Company's paid-up share capital is represented.
The General Meeting of Shareholders shall be entitled to pass resolutions on the issues enlisted below, if at least 80% (eighty percent) of the paid-up share capital of the Company are represented; furthermore, a majority of votes is necessary, that shall not be less than 80% (eighty percent) of the total number of all votes by the shareholders with right to vote:

- on amendments to the Company's Charter;
- on changes in the share capital;
- on issue and conversion of the Company's securities, including bonds;
- on reorganization of the Company, on merger or agreement to be merged, or termination or continuation of its operation;
- on conclusion of a holding agreement, changes in the holding agreement or its termination.

The current structure of the Company'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.

Council

The Council consists of 4 (four) shareholder representatives elected for a period of three years. All members of the Council are either the beneficial owners of the Group or representatives of the beneficial owners.
The Council approves annual and quarterly budgets of the Group.
The following Board decisions require the written authorization of the Council:

- on approval of significant deviations from Group's budget.
- on approval of any significant transaction with Group's Related parties,except for transactions with legal entities, the list whereof has been approved by the Council;
- on approval of any purchase or alienation by the Group of ownership right to any other legal entity or to the assets that actually constitute the whole Group of any legal entity or division thereof;
- on approval of any significant liability or transaction beyond ordinary course of business, including, but not limited to investment, purchase, alienation, lease, mortgage, pledge or guarantee.
- on approval of any planned public media release, press release or other announcement related to the Shareholders;
- on approval of decision connected with reorganization of the Group`s subsidiaries or alienation of business, all assets or significant part thereof in the Group`s subsidiaries;

The Council shall be competent to pass decisions if not less than 4 (four) Council Members are present at the meeting. If less than 4 (four) Council Members have arrived to or attend the Council Meeting, such meeting shall be stopped, and a repeated meeting shall then be convened not earlier than 10 (ten) days after the suspended meeting. Such repeated meeting may pass decisions if attended by any 3 (three) Council Members, and in this case its decisions shall be regarded as legitimate. If while passing decisions of the Council votes of members of the Council split then the vote of the Chairman of the Council shall be decisive.

The Council of the Group's Parent company is comprised of 4 members:

- Andris Putāns (Chairmen of the Council)
- Indrek Kasela (Deputy Chairmen of the Council)
- Kaspars Viškints (Council Member)
- Ēriks Strods (Council Member)

Board

The Board consisting of 5 (five) Members is elected by the Joint-Stock Company's Council for a period of 3 (three) years.
The Board shall be authorized to represent the Company as follows: the Board Chairman is authorized to represent the Company separately, while the other Board Members each are authorized to represent the Company together with one other Board Member.
The Board Members shall, within one month from the date of election, notify the Council on what enterprises or business companies they have employment relationship with, what enterprises or business companies they own, in what business companies they hold equity, in what business companies they are Council or Board Members. The Board Members shall submit the same information on their spouses.
At least 3 (three) Board Members must be permanently employed by the Company. The Board Members permanently employed at the Company shall not join their permanent office with offices at other business companies, including occupying elected positions, with an exception of the cases when the Council's consent has been obtained.
The work of the Board is managed by the Chairman of Board, who is the Company's president at the same time.
The Board makes decisions concerning all issues related to the operation of the Company, except for those that are within the competence of the General Meeting of Shareholders or the Council. In line with the current Charter, certain decisions of the Board require the written authorization of the Council.
The Board Meetings are convened at the location of the Board according to necessity, but not less frequently than once in two months. The Board Chairman shall convene the Board Meeting, but in his/her absence – any other Member of Board.
The Board Meetings are competent if not less than 3 (three) Board Members participate.
Each Board Member shall be entitled to one vote. The Board resolutions shall be passed by vote of not less than 3 (three) Board Members. If while passing decisions of the Board votes of Members of the Board split then the vote of the Chairman of the Board shall be decisive.
Council Members are entitled to receive previous information about Board Meetings and to take part at Board Meetings.
The resolutions passed by the Board are binding on all Company's staff.
The Board of the Company is comprised of 5 members:

- **Egons Mednis** (Chairman of the Board, President)
- **Svens Dinsdorfs** (Board Member, Chief Executive Officer)
- **Maxim Stomakhin** (Board Member, Chief Commercial Officer)
- **Vadims Rabša** (Board Member, Chief Financial Officer)
- **Mārtiņš Ozoliņš** (Board Member, Deputy Chief Commercial Officer)

Audit Committee

Companycreated the Audit Committee in accordance with Section 54 of the Financial Instrument Market Law of RoL.

As per legal requirements, Audit Committee consists of 3 members, out of which at least 2 members are independent.

The Audit Committee of the Company is comprised of 3 members:

- Ainis Dābols
- Vladimirs Reskājs
- Kaspars Viškints

At least once per year Audit committee performs financial audit of the Company together with approved certified auditor.
Audit committee reports directly to the Council of the Company.

Management

Group is a multinational organization that operates sales offices in different countries and provides management services to its subsidiaries from headquarters in Latvia. The Management team of the Group is located in Latvia and it consists of the Chief Executive Officer and 8 members that are directors of specific structural units (departments).

Each Management team member is responsible for fulfilling strategic projects of the respective department and providing support for fulfilment of strategic projects of other departments. To ensure that all Management team is informed about the key developments in different departments, the Management team holds regular meetings in which they discuss key tasks and issues faced by their departments. Additionally, each Management team member participates in regular individual meetings with the CEO during which they discuss the operational projects and issues and agree on further steps.

Management decisions about strategically important projects and targets are based on 6 cornerstones or strategic pillars that are used as basis for a roadmap to achieve Group's vision to become the preferred distributor in the selected markets.

- Targeted sales channel management based on balanced customer portfolio
  (i.e. GROUP needs to understand how to sell and target its clients and thus invests in data analytics improvements, sales strategy development and sales channel development)
- New value proposition by introducing newest technology
  (i.e. to remain competitive in the market, Group systematically works on growing its product portfolio by reorganizing current operations and developing roadmap for future activities)
- High quality service based on local market requirements and customer segmentation
  (i.e. to provide high quality service to retain its customers Group assesses and develops its positioning in the market and works on becoming a one-stop-shop for its clients)
- Optimized and automated operation processes complying with the highest industry efficiency indicators
  (i.e. to increase its efficiency and reduce its cost base Group consistently works on optimizing its operations by implementing sophisticated CRM and ERP systems, improving cooperation between headquarters and sales offices and introducing process efficiency measurements)
- Maximized return on capital by combining supply chain, product groups and customer segments
  (i.e. to maximize return to its shareholders Group works on developing multiple safeguards that allow ensuring sufficient return on equity and develops sophisticated and pragmatic risk management systems that reduce exposure to certain risks)
- Professional, result oriented and engaged employees
  (i.e. to ensure implementation of the above described strategic pillars Group needs to ensure that it has a strong employee base that is capable to fulfil their tasks – therefore, Group invests and consistently develops its management teams in both headquarters and sales offices and continuously improves employee performance evaluation and remuneration systems to achieve the highest level of employee motivation and work satisfaction)

The Management of the Group's Parent Company is comprised of 9 members:

- Svens Dinsdorfs (Chief Executive Officer)
- Vadims Rabša (Chief Financial Officer)
- Maxim Stomakhin (Chief Commercial Officer)
- Mārtiņš Ozoliņš (Deputy Chief Commercial Officer)
- Eduards Bezprozvanovs (Chief Technology Officer)
- Uldis Menģelis (Chief Legal Officer)
- Ģirts Āboliņš (Logistics Director)
- Inese Kalveite (Marketing and Communication Director)
- Ināra Mukāne (HR and Administration Director)

Corporate governance procedures

Internal Control and Accounting Policy

Internal control system is created with the aim to protect the Group and the Group from loss that may occur due to unauthorized use of the Group's and the Group's assets. Existing internal control system provides confidence, that unauthorized use of the Group's assets is unlikely to happen and that the Group is protected from loss of this nature.

The Group has developed and implemented accounting policy which is based on International Financial Reporting Standards. Accounting policy of the Group ensures that information in financial reports of the Group and the Group is true, comparable, timely, relevant, understandable, proper, and complete.

Consolidated Financial report is audited by independent auditors, ensuring that financial report give true and fair view of the Group's financial standing and operating results.

Financial risk management

Multi-currency risk
Group 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 Group to customers are mostly carried out in the respective local currencies.
The Group 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 Group monitors the open foreign currency positions and if necessary acquires adequate financing instruments to minimize the risk.
Interest rate risk
The Group uses current borrowing for financing part of its current assets. All the borrowings are at floating rate that exposes the Group to interest rate risk.
Credit risk
Credit risk arises from the credit exposure to outstanding trade receivables. Group 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 Group 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 Group 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 Group's warehouse or that are already ordered.
Liquidity risk
Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Group's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Human resource management

Group's growth and financial performance is highly dependent on the ability of the management to attract, train and retain employees. Group employ almost 900 employees.
To ensure that employees are motivated to work towards the common strategic goals, a large part of employees are subject to a partial variable remuneration based on specific KPIs for each department and function. Group uses both quantitative measurements (e.g. revenue, net profit and average time spent on specific tasks) and qualitative measurements (e.g. fulfilment of specific strategic projects). The objectives are defined and communicated to employees and subsequently their fulfilment is assessed during regular performance evaluation discussions with the relevant department director.
Group's Parent company has won the title of Excellent Employer DNS 2016 for its Employee Management System project.

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Egons Mednis
Chairman of the Board
April 20, 2018

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 AUDITOR'S REPORT

To the shareholders of ELKO Grupa AS

Opinion

We have audited the accompanying consolidated financial statements of ELKO Grupa AS and its subsidiaries (the Group) set out on pages 7 to 56 of the accompanying consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information all expressed in US dollars.

In our opinion, the accompanying consolidated financial statements expressed in US dollars give a true and fair view of the financial position of the Group as at 31 December 2017 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. In our opinion, the financial statements expressed in euro have been properly translated on the basis described in Note 2.2 *Foreign currency translation*.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We have also reviewed the translation of these statements into euro on the basis described in Note 2.2 *Foreign currency translation*. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter	How we addressed the key audit matter
Revenue recognition for sales to Russia and Ukraine markets	
As disclosed in Note 6 *Operating segment information*, sales to CIS countries amount to 990 457 thousand USD for the year 2017. Russia and Ukraine cover 99% of sales to CIS countries. Several entities of the group are involved in sales in Russia and Ukraine markets - Alma OOO and Elko Ukraine TOB, Elko Trading Switzerland AG and Elko Mobile Limited. Elko Trading Switzerland AG and Elko Mobile Limited sell to Russia and Ukraine markets through a number of intermediaries. During the year sales are recognized at the time when the invoice is issued.	We performed the following procedures, among others: ➢ We performed the sales process walkthrough; ➢ We tested a sample of manual controls over the revenue recognition and measurement; ➢ We tested the relevant IT system controls over the revenue recording, calculation of amounts billed to the Group's customers and matching of cash receipts to the accounts of the Group's customers;

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

Revenue recognition for sales to Russia and Ukraine was significant to our audit due to the materiality of respective revenues to the consolidated financial statements where these revenues constitute 62% of the total sales carried out by the Group and also complex transfer of ownership of goods and respective revenue recognition.

- We obtained agreements with significant intermediaries, assessed the main terms and conditions of respective agreements;
- We obtained an external customer confirmations from all intermediaries and confirmed trade receivable balances, the Group's stock held by the intermediaries' balances and reconciled turnovers for the reporting period;
- We participated in stock counts in January 2018 in the inventory locations of the intermediaries to test the existence of the Group's inventories held by the intermediaries;
- We tested a sample of revenue transactions close to the end of the financial year for periodization;
- We reviewed year-end corrections related to consignment goods and assessed the respective corrections made to trade receivables, stock, revenues and cost of sales.

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

Volatility of Russian rubles and Ukrainian hryvnia exchange rate

As disclosed in Note 6 *Operating segment information*, sales to CIS countries amount to 990 457 thousand USD for the year 2017. Russia and Ukraine cover 99% of sales to CIS countries.

As a result of the geopolitical tension in eastern Ukraine, the sanctions imposed by Western countries on the Russian economy, the economic conditions in the East European sub-region including the respective countries have been negatively affected starting from 2014.

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

Volatility of Russian rubles and Ukrainian hryvnia exchange rates is material to our audit due to the fact that significant part of the Company's revenues are generated from sales to Russia and Ukraine and there are material fluctuations in Exchange differences on translation of foreign operations from year to year. If these markets further deteriorate it would have an adverse effect on the Group's business volumes, debtors recoverability and losses from the changes in foreign currency exchange rates.

We performed the following procedures, among others:

- We obtained an assessment on geopolitical and currency risks prepared by the Company's management.
- We reviewed the Company's/Group's internal procedures in respect of the assessment of allowances for doubtful trade receivables.
- We tested the receivables ageing and assessed the level of allowances for the bad debts made for entities selling in Russia and Ukraine.
- We reviewed subsequent payments from debtors of the entities selling in Russia and Ukraine.
- We performed analytical review procedures in respect of receivables aging structure and year-to-year changes for unusual fluctuations.
- We discussed with the Company's/Group's management the procedures of managing foreign currency exchange risk
- We performed analytical review procedures by forming an expectation of gains and losses arising from the changes in foreign currency exchange rate based on the currency exchange rate movements.

We also evaluated adequacy of the Company's disclosures in relation to trade receivable related disclosures in Note 19 *Trade receivables* and foreign exchange related disclosures in Note 5 *Financial risk management objectives and policies*.

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Transactions with related parties

A significant part of the Group's revenue is earned through the involvement of related parties as disclosed in Note 3.10 *Related party transaction compliance.* Largest volumes of intragroup transactions are between Elko Group SIA and Elko Trading Switzerland. Each company of the Group operates under different jurisdiction and applies its own pricing model to be compliant with the respective legal framework of the jurisdiction. Transactions between related parties are significant for audit due to the materiality of revenue which is generated through related parties and the possible transfer pricing risk associated with transactions between related parties. This was important to our audit due to the magnitude of the transactions and the possible transfer pricing risk associated with these transactions.	We performed following the procedures, among others: ➢ We performed the sales process walkthrough between related parties ➢ We tested controls over sales process between related parties ➢ We tested the relevant IT system controls over the sales transactions between related parties and correct margin application for related party transactions ➢ We obtained the transfer pricing documentation prepared by Group. We involved Tax specialists to assess the key assumptions made by the Group's management. ➢ We assessed the application of the Group's transfer pricing documentation in executing the business transactions. ➢ We involved our tax specialists in the major jurisdictions to review the taxation base and principles.

Reporting on other information

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

- the Management Report as set out on pages 4 to 5 of the accompanying consolidated Annual Report;
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report and
- the Statement of Corporate Governance for the year 2017, set out in separate statement provided by ELKO Grupa AS management and available on the ELKO Grupa AS website http://www.elkogroup.com section *Investor relations*,
- Non-financial Statement, as set out on pages 57 to 61 of the accompanying Annual report,

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

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

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

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

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

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, the Statement of Corporate Governance and the Non-Financial Statement. These additional reporting responsibilities are beyond those required under the ISAs.

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

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

- information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements, and

- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^2 paragraph three of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the Management Report or prepared as separate element of the Annual Report or is included in the consolidated Non-financial Statement of the Company's parent company.

We hereby report that the Group has prepared a Consolidated Non-financial Statement, and it is included as a separate element of the Consolidated Annual Report.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the 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.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and European Union when Providing Audit Services to Public Interest Entities

We were first appointed as auditors of the Company on 16 November 2007 by Shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 11 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as stipulated in paragraph 37[6] of the Law on Audit Services of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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

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Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153

Riga, 20 April 2018