



Joint stock company ELKO Grupa

Unified registration number: 40003129564

Annual report for the year ended 31 December 2017
(25th financial year)

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED BY THE EU
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

Riga, 2018

The annual report was reviewed and approved
by the general shareholders' meeting on 20 April 2018

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General information

Name of the company	ELKO Grupa
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	000312956 Riga, 14 May 1993 Re-registration with the Commercial Register on 2 December 2003, unified registration number 40003129564
Address	Toma iela 4 Riga LV-1003 Latvia
Shareholders	Ashington Business Inc. Limited (1,935,440 shares), United Kingdom* Solsbury Invention Limited (1,928,536 shares), United Kingdom Amber Trust II S.C.A. (1,728,644 shares), Luxembourg Eurotrail SIA (1,072,608 shares), Latvia Whitebarn Ltd. (1,072,608 shares), Latvia KRM Serviss SIA (1,049,110 shares), Latvia Solo Investīcijas IT SIA (997,844 shares), Latvia * The par value per share is EUR 1. The Company's share capital was denominated into the euro in 2015.
Names and positions of Council Members	Andris Putāns – Chairman of the Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member
Names and positions of Board Members	Egons Mednis – Chairman of the Board with powers to represent the Company individually, President Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Executive Officer Aleksandrs Orlovs - Board Member with representation powers jointly with another Board Member, Business Development Director (until 22 June 2017) Māris Būmanis - Board Member with representation powers jointly with another Board Member, Chief Financial Officer (until 12 April 2017) Vadims Rabša - Board Member with representation powers jointly with another Board Member, Chief Financial Officer (from 22 June 2017) Maxim Stomakhin - Board Member with representation powers jointly with another Board Member, Commercial Director (from 20 September 2017) Mārtiņš Ozoliņš - Board Member with representation powers jointly with another Board Member, Distribution Director
Proctor	Uldis Menģelis – Proctor with representation rights jointly with a Board Member, Principal Lawyer (from 5 January 2017)
Responsible for accounting	Kristīne Paule, Chief Accountant
Reporting year	1 January - 31 December 2017
Auditors	Ernst & Young Baltic SIA Muitas iela 1A, Riga Latvia, LV-1010 License No 17 Iveta Vimba Latvian Certified Auditor Certificate No 153

Management report

Business profile

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

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

Financial analysis

The turnover of AS ELKO Grupa for the year 2017 was EUR 436.5 million, up by 14.3% from the year 2016, which is mainly due to the stabilization of the economic situation in the markets the Company operates in.

The Company earned a profit of EUR 4 million in 2017. Compared to the year 2016, the net profit fell by EUR 4.4 million, which is chiefly due to the lower dividend revenue which in 2017 totaled EUR 0.6 million, compared to the EUR 6.3 million in 2016.

Significant events during the reporting period

In the first half of 2017, ELKO announced the change of the brand identity. The new logo and underlying narrative is the first visible evidence that ELKO keeps space and changes by improving effectiveness and ensuring sustainable development.

In July 2017, the Company extended the syndicate credit line, completed the purchase of 85% of the shares in Gandalf Distribution AB, one of the leading distributors of computers and peripheral products in Sweden, and expanded its business in Polish market by attracting a local sales force for IT and electronic appliances trading.

Future prospects

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

In 2018, the Company's sales are expected to remain at the level of 2017.

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

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

The Group structure of AS ELKO Grupa

The AS ELKO Grupa Group comprises the following subsidiaries: ELKO Lietuva UAB, ELKO Eesti OU, ELKOTech Romania SRL, WESTech spol. s r.o., WESTech CZ s.r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., ELKO Mobile Ltd., ELKO Kazakhstan LLP, Elko RUS Ltd., Gandalf Distribution AB, AST Balts SIA. The subsidiary Elko Marketing Ltd. owns 100% shares in Alma LLC and 99.99% - in ELKO Ukraine LLC. The subsidiary WESTech spol. s r.o. owns 51% shares in Swiss Spol s r.o.

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

Management report (cont'd)

Financial risk management

Multi-currency risk

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

The US dollar is predominantly used by the Company for purchasing goods from vendors, and as well as for selling to its subsidiaries. Sales to Baltic customers are carried out in the euro.

The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency, i.e., the euro.

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

Interest rate risk

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

Credit risk

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

Inventories

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

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

Liquidity risk

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

Events after balance sheet date

Except as disclosed in the financial statements, as of the last day of the reporting year there have been no events which could produce a material impact on the Company's financial position as at 31 December 2017.

Profit distribution proposed by the Board

The Board has proposed that the profit earned by the Company for the year 2017 should be transferred to retained earnings for investments and maintaining financial stability of the Company.

Egons Mednis

Chairman of the Board,
President

Riga, 20 April 2018

The annual report was approved by the general shareholders' meeting on 20 April 2018.

Chairman of the general shareholders' meeting _____

Andris Putāns

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 give true and fair view in all material aspects of the financial position of the Company 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.

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

Financial statements

Statement of comprehensive income

	Note	2017 EUR	2016 EUR
Net turnover	5	436,480,172	381,963,013
Cost of sales	6	<u>(415,556,403)</u>	<u>(357,343,366)</u>
Gross profit		20,923,769	24,619,647
Selling and distribution costs	7	(2,427,168)	(1,899,427)
Administrative expenses	8	(10,438,266)	(9,526,577)
Other operating income	9	1,933,549	2,382,640
Other operating expenses	10	(7,302,461)	(13,223,629)
Operating profit		2,689,423	2,352,654
Finance income	11, 22	5,661,316	11,144,799
Finance cost	12, 22	<u>(3,698,608)</u>	<u>(4,796,127)</u>
Profit before tax		4,652,131	8,701,326
Corporate income tax	13	(580,824)	(337,022)
Deferred tax	13, 29	<u>-</u>	<u>-</u>
Net profit for the year		<u>4,071,307</u>	<u>8,364,304</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u><u>4,071,307</u></u>	<u><u>8,364,304</u></u>
Earnings per ordinary share (EUR per share)	24	0.42	0.85

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Kristīne Paule

Chief accountant

20 April 2018

Statement of financial position

	Note	31.12.2017 EUR	31.12.2016 EUR
ASSETS			
Non-current assets			
Intangible Assets:			
Concessions, patents, licenses, trademarks and similar rights		310,072	317,485
Total intangible assets:	14	310,072	317,485
Property, plant and equipment:			
Leasehold improvements		40,711	54,527
Equipment and machinery		40,595	75,359
Communications and IT equipment		408,846	437,877
Other fixtures and fittings, tools and equipment		23,568	16,334
Total property, plant and equipment:	15	513,720	584,097
Non-current financial assets:			
Investment in related companies	16	12,651,198	5,022,928
Non-current loans to related companies	36	3,426,000	3,426,000
Total non-current financial assets:		16,077,198	8,448,928
Total non-current assets:		16,900,990	9,350,510
Current assets			
Inventories:			
Finished goods and goods for sale	17	25,414,354	27,745,025
Prepayments for goods		1,456,471	90,977
Total inventories:		26,870,825	27,836,002
Receivables and other current assets:			
Trade receivables	18	27,401,344	29,240,409
Receivables from related companies	36	45,485,449	37,903,409
Other receivables	19	3,377,927	7,923,206
Accrued income		19,871	236,743
Total receivables:		76,284,591	75,303,767
Prepaid expenses and prepayments	20	255,413	377,679
Current financial assets:			
Current loans to related companies	36	50,584,227	88,000,826
Short-term deposits	21	917,202	948,677
Derivative financial instruments	22	51,542	3,408
Total current financial assets:		51,552,971	88,952,911
Cash and short-term deposits:	23	472,969	4,496,678
Total current assets		155,436,769	196,967,037
TOTAL ASSETS		172,337,759	206,317,547

Statement of financial position

	Note	31.12.2017 EUR	31.12.2016 EUR
EQUITY AND LIABILITIES			
Equity:			
Share capital	24	9,784,790	9,784,790
Share premium		4,973,947	4,973,947
Retained earnings			
a) brought forward		37,485,664	33,121,360
b) for the year		4,071,307	8,364,304
Total equity:		56,315,708	56,244,401
Liabilities:			
Non-current liabilities:			
Debt securities	25	-	8,000,000
Other borrowings	26	2,469	18,090
Total non-current liabilities:		2,469	8,018,090
Current liabilities:			
Loans from credit institutions	27	35,515,225	60,500,021
Debt securities	25	8,000,000	-
Other borrowings	26	15,621	33,047
Loans from related companies	36	9,500,000	7,260,658
Prepayments received from customers		897,548	194,338
Trade payables		57,297,274	71,539,330
Payables to related companies	36	330,750	331,067
Taxes payable	30	240,343	-
Other liabilities	28	355,121	233,560
Accrued liabilities	31	1,526,028	940,203
Undrawn dividends of previous years		1,836,250	-
Derivative financial instruments	22	505,422	1,022,832
Total current liabilities:		116,019,582	142,055,056
Total liabilities:		116,022,051	150,073,146
TOTAL EQUITY AND LIABILITIES		172,337,759	206,317,547

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

Egons Mednis
Chairman of the Board,
President

Kristīne Paule
Chief accountant

20 April 2018

Statement of changes in equity

	Share capital	Share premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
Balance as at 1 January 2016	9,784,790	4,973,947	38,621,360	53,380,097
Profit for the year	-	-	8,364,304	8,364,304
Total comprehensive income for 2016	-	-	8,364,304	8,364,304
Dividends paid *	-	-	(5,500,000)	(5,500,000)
Balance as at 31 December 2016	9,784,790	4,973,947	41,485,664	56,244,401
Profit for the year	-	-	4,071,307	4,071,307
Total comprehensive income for 2017	-	-	4,071,307	4,071,307
Dividends paid **	-	-	(4,000,000)	(4,000,000)
Balance as at 31 December 2017	9,784,790	4,973,947	41,556,971	56,315,708

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

* In 2016, the Company has paid out dividends on prior year retained earnings in the amount of EUR 5,500 thousand (EUR 0.56 per share).

** In the reporting year, the Company has paid out dividends on prior year retained earnings in the amount of EUR 4 million (EUR 0.41 per share).

Egons Mednis

Chairman of the Board,
President

Kristīne Paule

Chief accountant

20 April 2018

Cash flow statement

	Note	2017 EUR	2016 EUR
Cash flow to / from operating activities			
Profit before tax		4,652,131	8,701,326
Adjustments for:			
Amortization and depreciation	14, 15	469,280	374,937
Changes in provisions and allowances		21,501	14,714
(Profit) or loss from fluctuations of currency exchange rates		(305,075)	5,655,996
Income from dividends	11	(612,000)	(6,329,889)
Penalties expense		2,692	496
Interest income and other penalties income	11	(5,049,316)	(4,814,910)
Interest expense	12	3,698,608	4,796,127
(Gain)/ loss on financial instruments (net)		(565,544)	3,468,133
Gain on disposal of property, plant and equipment		(26,754)	(22,722)
		<u>2,285,523</u>	<u>11,844,208</u>
Changes in working capital			
Decrease/ (increase) in trade receivables		445,588	(54,962,889)
(Increase)/ decrease in inventories		965,177	(4,026,369)
Increase in trade and other payables		3,807,863	41,707,534
Gross operating cash flows		7,504,151	(5,437,516)
Interest received		41,291	93,599
Interest paid		(2,692)	(496)
Corporate income tax paid		(212,999)	(305,339)
Net cash flows to/ from operating activities		7,329,751	(5,649,752)
Cash flows to/ from investing activities			
Acquisition of shares in related companies	16	(7,628,270)	(1,188,928)
Purchase of property, plant and equipment and intangible assets		(393,271)	(511,395)
Proceeds from sale of property, plant and equipment		28,535	25,240
Loans (issued)		-	(2,747,758)
Loans repaid		26,805,404	26,150,060
Deposits made		(83,801)	(890,950)
Interest received		4,124,448	5,055,039
Dividends received		612,000	6,329,889
Net cash flows to/ from investing activities		23,465,045	32,221,197
Cash flows to/ from financing activities			
Proceeds from borrowings		2,507,330	8,017,064
Repayment of borrowings		(31,430,435)	(21,596,065)
Repayment of borrowings (finance leases)	26	(33,047)	(52,744)
Interest paid (bonds)		(693,328)	(714,586)
Interest paid		(3,005,275)	(4,080,930)
Dividends paid		(2,163,750)	(5,500,000)
Net cash flows to/ from financing activities		(34,818,505)	(23,927,261)
Net cash flows of the reporting year		(4,023,709)	2,644,184
Cash and cash equivalents at the beginning of the reporting year		4,496,678	1,852,494
Cash and cash equivalents at the end of the reporting year		472,969	4,496,678

The accompanying notes on pages 11 to 49 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Kristīne Paule

Chief accountant

20 April 2018

Notes to the financial statements

1. Corporate information

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

The financial statements of the Company for the year ended 31 December 2017 were approved by a resolution of the Company's Board on 20 April 2017.

The shareholders are entitled to amend the financial statements after they have been issued.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Company's 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

These financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that are measured at fair value.

The Company's functional currency is U.S. dollars. The company has decided to prepare the financial statements in presentation currency euro (EUR) as required for filing purposes according to Latvian legislation. The financial statements cover the period 1 January 2017 through 31 December 2017.

In determination of functional currency Company 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 Company:

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

These are separate financial statements of the Company. Consolidated financial statements have been prepared separately. Consolidated statements will be issued on 20 April 2017, and can be found on the Company's website www.elkogroup.com

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

The statement of cash flows has been prepared under the indirect method.

2.2. Foreign currency translation

As the presentation currency differs from the Company'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;

2.2. Foreign currency translation (cont'd)

(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 recognised in other comprehensive income.

The Company has estimated that the resulting exchange differences are not material to the financial statements and therefore there are no exchange differences recognised in other comprehensive income for 2017 and 2016.

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

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

Non-monetary assets and liabilities that are initially measured at cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary assets and liabilities measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items the increase of decrease in the fair value of which is recognized in other comprehensive income or through profit or loss respectively).

	31.12.2017	31.12.2016
	EUR	EUR
EUR 1	1.00000	1.00000
USD 1	1.19930	1.05410
CHF 1	1.17020	1.07390
RUB 1	69.3920	64.30000
RON 1	4.65850	4.43900
SEK 1	9.84380	9.55250
KZT 1000	398.2300	351.9550

2.3. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, less any discounts granted and value added tax. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

The Company 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 recognized 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 and expense

For all financial instruments measured at amortized 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 the Statement of profit or loss under caption "Finance income".

2.3. Revenue recognition (cont'd)

Dividends

Revenue is recognized when the Company's right to receive the payment is established, which is generally when shareholders approve the dividends.

2.3. Revenue recognition

Other income

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

Operating segment

The Company's Board makes a decision on the resource allocation considering Elko Grupa AS as one entity without dividing it in operating segments.

The Group's management reporting principles do not differ from the accounting policies described in Note 2 in the summary of significant accounting policies according to IFRS

2.4. Taxes

Corporate Income Tax

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

Income taxes comprise the corporate income tax of the reporting year and the deferred corporate income tax. Current corporate income tax is applied at the effective statutory rate of 15%.

Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Deferred tax assets and liabilities

Deferred corporate income tax of the year 2017 arising from temporary differences between the tax base of assets or liabilities and their carrying amount in these financial statements is calculated using the liability method. Deferred tax is calculated on the basis of currently enacted tax rates that are expected to apply to the period when the deferred tax asset is realized or the deferred tax liability is settled. The principal temporary timing differences arise from differing rates of amortization and depreciation of the Company's non-current assets and accrued liabilities. A deferred corporate income tax asset is recognized to the extent that it is highly probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax liabilities or assets which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss or reserves, depending on whether deferred tax liabilities or assets were recognized initially in the statement of profit or loss or reserves, in the financial statements for the year ended 31 December 2017. According to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax except:

- When value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized 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 value added tax included.

The net amount of value added 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 Company determines the classification of its financial assets at initial recognition.

2.5. Financial instruments – initial recognition and subsequent measurement (cont'd)

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

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

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

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized 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 amortization is included in the caption of the statement of comprehensive income "Finance income".

Derecognition

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

- The rights to receive cash flows from the asset have expired.
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

Impairment of financial assets

The Company 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 reorganization 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 (cont'd)

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company 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, recognized 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 recognized in the statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include trade and other payables, bank overdraft, loans and derivatives.

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized 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 amortization is included in the caption of the statement of comprehensive income "Finance income".

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

2.5. Financial instruments – initial recognition and subsequent measurement (cont'd)

Derecognition

A financial liability is derecognized 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. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are 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 considered to modify 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 profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 statement of profit or loss when the asset is derecognised.

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

Licenses	20% per annum
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2.7. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. The cost includes expenditure that is directly attributable to the acquisition of assets.

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

	% per annum
Vehicles	25
Communication devices	50
Computers and data storage devices	50
Other plant and equipment	25
Leased assets	20 – 30

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

2.7. Property, plant and equipment

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

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

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

2.8. Derivative financial instruments

Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The purchase contracts that meet the definition of a derivative under IAS 39 are recognised in the statement of profit or loss as cost of sales.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

2.9. 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.

Finance leases – the Company as a lessee

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

Operating leases – the Company as a lessee

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

2.10. Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated at cost less impairment losses.

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

2.11. 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 capitalized as part of the cost of the asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2017 and 2016 the Company had no borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

2.12. Inventories

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

2.13. Impairment of non-financial assets

The Company 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 Company 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. It 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, quoted prices of the shares of listed subsidiaries or other available fair value indicators.

2.14. Cash and cash equivalents

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

2.15. Share capital and dividend distribution

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

2.16. Related parties

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

2.17. Provisions

Provisions are recognized when the Company 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 Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.18. Warranties

The Company's vendors generally warrant the products distributed by the Company and allow returning defective products, including those that have been returned to the Company by its customers. Based on the past experience and the contractual agreements with vendors, the Company assesses that the receipt of the reimbursement from vendors is virtually certain. The Company does not independently warrant the products it distributes. Historically the Company 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.

2.19. Vendor programs

The Company receives funds from vendors in a form of credit notes for price protection, product rebates, marketing and other product promotions as well as investments in infrastructure, which, depending on the type of the program in question are booked either as decrease of the cost value of the inventory, recognized directly in the statement of profit or loss as decrease of cost of sales or 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.

2.20. Subsequent events

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

3. Changes in accounting policy 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 Company 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. These amendments did not have an effect on the Company's financial statements.
- **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 Company 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 Company will make necessary system development to present requested Disclosure 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 Company's financial statements.
 - **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.

3.1 Standards issued but not yet effective

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

IFRS 9 Financial Instruments: 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 expected to have limited or no impact because the Company 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 Company'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 obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The management has assessed the contracts with customers and concluded that the introduction of the new standard will not affect the Company's financial statements.

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 Company does not expect impacts on its Financial Statements as the Company 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.

3.1 Standards issued but not yet effective (cont'd)

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 Company'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 expected to have limited or no effect on the Company's financial statements because the Company 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 standard has not been yet endorsed by the EU. 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 assessed these amendments and reached the conclusion, that there will be no effect on Company's financial statement, as Company does not have any of such assets.

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 of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The management has assessed the impact of these amendments and concluded that the introduction of the new standard will not affect the Company's financial statements as the Company does not have such properties.

3.1 Standards issued but not yet effective (cont'd)

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. The management has not yet assessed the impact of this standard.

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. The management has not yet assessed the impact of this interpretation.

3.1.1 IFRS improvements

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. These annual improvements have not yet been endorsed by the EU. The management has not yet assessed the impact of these improvements.

- **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.
- **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
- **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. The management has not yet assessed the impact of this interpretation.

3.1 Standards issued but not yet effective (cont'd)

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. The management has not yet assessed the impact of these improvements.

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

4. Significant accounting judgments, estimates and assumptions

The preparation of the Company's 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 Company's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognised in the financial statements:

4.1. 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 in U.S. dollars.

4.2. Vendor programs

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

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2017 amounted to EUR 8,345 thousand (2016: EUR 7,447 thousand) based on the individual vendor agreements.

4.3. Income taxes

Income taxes comprise the corporate income tax of the reporting year and the deferred corporate income tax. Current corporate income tax is applied at the effective statutory rate of 15%.

Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

4.4. Impairment of inventories

The Company 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 Company'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.

4.5. Impairment of receivables

Significant judgment is applied, when estimating the allowances for impairment of trade receivables (Note 14). The Company evaluates the receivables according to IAS 39 assessing each overdue receivable on an individual basis.

4.6. Warranty provisions

The Company's vendors generally warrant the products distributed by the Company and allow returning defective products, including those that have been returned to the Company by its customers. Based on the past experience and the contractual agreements with vendors, the Company assesses that the receipt of the reimbursement from vendors is virtually certain. The Company does not independently warrant the products it distributes. Historically the Company 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. The amount of provision with respect to warranties is disclosed in Note 7, 31 and 33.

4.7. Impairment of non-financial assets

The Company 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 Company 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, quoted prices of the shares of listed subsidiaries or other available fair value indicators.

4.8. Fair value of financial instruments

The Company measures financial instruments such as derivatives at fair value at each balance sheet date. Fair-value related disclosures for financial instruments are summarized in the note 33.

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 Company.

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 best economic interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing 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.

For assets and liabilities that are recognized at fair value in the financial statements on a recurring basis, the Company determines whether any transfers have occurred between the hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.9. Operating segments

Board makes a decision on the resource allocation considering Elko Grupa AS as one entity without dividing it in operating segments.

Notes to the financial statements (cont'd)

5. Net turnover

	2017	2016
	EUR	EUR
Wholesale of computer components	466,748,846	415,935,730
Other sales income	415,161	474,108
Discounts granted	(30,683,835)	(34,446,825)
	<u>436,480,172</u>	<u>381,963,013</u>

Results for the year 2017:

	Latvia	Other countries	Total
	EUR	EUR *	EUR
Wholesale of computer components	32,515,693	434,233,168	466,748,861
Other sales income	-	415,152	415,152
Discounts granted	(644,994)	(30,038,847)	(30,683,841)
Net turnover	<u>31,870,699</u>	<u>404,609,473</u>	<u>436,480,172</u>

*Sales to a particular country are attributed depending on the buyer's country of residence.

Results for the year 2016*:

	Latvia	Other countries	Total
	EUR	EUR *	EUR
Wholesale of computer components	25,492,390	390,44-3,340	415,935,730
Other sales income	-	474,108	474,108
Discounts granted	(327,802)	(34,119,023)	(34,446,825)
Net turnover	<u>25,164,588</u>	<u>356,798,425</u>	<u>381,963,013</u>

*Sales to a particular country are attributed depending on the buyer's country of residence.

The main customers of the Company are related parties with mutual transactions comprising 70% (in 2016: 77%) of the total net turnover. Company's net turnover is mostly generated by transactions with the CIS and Central and Eastern European customers (see Note 36). The Company does not have a single customer in the Baltic region with transactions comprising 10% of its turnover generated in the Baltic.

Notes to the financial statements (cont'd)

6. Cost of sales

	2017	2016
	EUR	EUR
Acquisition cost of goods sold	466,618,765	411,693,773
Delivery of purchased goods	1,927,549	1,299,805
Non-refundable taxes paid on the acquisition of goods	249,223	148,686
Discounts received	(53,239,134)	(55,798,898)
	<u>415,556,403</u>	<u>357,343,366</u>

7. Selling and distribution costs

	2017	2016
	EUR	EUR
Delivery of sold goods	623,521	493,912
Warehouse expenses	434,032	337,377
Distribution of goods	1,093,713	842,748
Advertising	195,037	207,985
Loss on warranty replacement	125,760	34,923
Provisions for RMA liabilities (see also note of 31 and 33)	(53,518)	(22,533)
Other selling and distribution costs	8,623	5,015
	<u>2,427,168</u>	<u>1,899,427</u>

8. Administrative expenses

	2017	2016
	EUR	EUR
Wages and salaries	5,535,133	5,038,094
Office maintenance	1,181,257	1,151,145
Statutory social insurance contributions	1,306,532	1,182,236
Professional fees *	351,675	317,726
Depreciation and amortization	469,277	374,936
Recruitment and training expenses	123,769	75,625
Bank charges	213,743	304,750
Transport expenses	265,119	110,367
Business trips	171,215	185,261
Communication expenses	194,070	175,900
Computer maintenance expenses	104,405	98,932
Write-offs of doubtful and bad receivables	41,083	66,755
Receivables insurance	203,400	204,772
Other administrative expenses	153,902	153,069
Other staff costs	123,686	87,009
	<u>10,438,266</u>	<u>9,526,577</u>

*Including fees paid to the audit firm for annual audit: EUR 128 280 and for tax services: EUR 48 976 in 2017.

Notes to the financial statements (cont'd)

9. Other operating income

	2017	2016
	EUR	EUR
Income from services provided (marketing)	1,906,226	2,337,167
Gain on disposal of property, plant and equipment	26,754	22,722
Other income	569	22,751
	<u>1,933,549</u>	<u>2,382,640</u>

10. Other operating expenses

	2017	2016
	EUR	EUR
Advertising contracts with subsidiaries	117,334	178,138
Donations	12,000	-
Penalties	2,691	496
Other expenses	35,083	27,333
Currency exchange loss	7,135,353	13,017,662
	<u>7,302,461</u>	<u>13,223,629</u>

11. Finance income

	2017	2016
	EUR	EUR
Interest income from current intra-group loans	4,817,604	4,715,051
Dividends from the subsidiary ELKO Mobile Ltd.	-	5,733,029
Dividends from the subsidiary WESTech Spol s.r.o.	612,000	596,860
Currency exchange gain, net	-	2,241
Late payment interest	41,291	93,599
Interest accrued on bank account balances	151	611
Gain on changes in the fair value of current financial instruments, net (see also Note 22)	-	3,408
Income from reduction of reserve for investment in ELKO Lietuva UAB *	190,270	-
	<u>5,661,316</u>	<u>11,144,799</u>

* On 17 August 2017, AS ELKO Grupa made a decision to reduce share capital of its subsidiary ELKO Lietuva UAB to EUR 2,501. (see Note 16)

Notes to the financial statements (cont'd)

12. Finance cost

	2017	2016
	EUR	EUR
Interest on loans from credit institutions	2,739,777	3,950,797
Interest on loans from related companies	235,733	127,459
Interest on finance leases	818	1,856
Loss on changes in the fair value of current financial instruments, net (see also Note 22)	28,952	1,429
Interest on debt securities	693,328	714,586
	<u>3,698,608</u>	<u>4,796,127</u>

13. Current and deferred corporate income tax

	2017	2016
	EUR	EUR
Deferred tax (see Note 29)	-	-
Current corporate income charge	580,824	337,022
	<u>580,824</u>	<u>337,022</u>

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

	2017	2016
	EUR	EUR
Profit/ (loss) before tax	4,652,131	8,701,326
Tax at the applicable tax rate of 15%	697,820	1,305,199
Non-deductible items	-	9,786
Non-taxable income	(143,594)	(982,683)
Tax rebate on donations	(10,200)	-
Other	36,798	4,720
Tax expense	<u>580,824</u>	<u>337,022</u>

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

Notes to the financial statements (cont'd)

14. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Licenses, and similar rights with indefinite useful life	Total
Acquisition value			
01.01.2016	315,405	300,000	615,405
Additions	2,283	-	2,283
31.12.2016	317,688	300,000	617,688
Amortization			
01.01.2016	291,759	-	291,759
Charge for the year 2016	8,444	-	8,444
31.12.2016	300,203	-	300,203
Net carrying amount as at 31.12.2016	17,485	300,000	317,485
Acquisition value			
01.01.2017	317,688	300,000	617,688
Additions	603	-	603
31.12.2017	318,291	300,000	618,291
Amortization			
01.01.2017	300,203	-	300,203
Charge for the year 2017	8,016	-	8,016
31.12.2017	308,219	-	308,219
Net carrying amount as at 31.12.2017	10,072	300,000	310,072
Net carrying amount as at 31.12.2016	17,485	300,000	317,485

*On 2 June 2015, AS ELKO Grupa signed an agreement with DL Distributors OU on the acquisition of DELL business in Estonia for EUR 300,000. With the acquisition of DL Distributors OU business, ELKO Group expanded its product portfolio in the Baltics and obtained a license to distribute DELL products also in Latvia and Lithuania. Goodwill is the purchase price paid for distribution rights. Impairment is assessed by examining DELL product turnover and gross margin applied to DELL products compared to operating profit margin.

The cost of fully amortized intangible assets at 31 December 2017 was EUR 275 thousand (as at 31 December 2016: EUR 275 thousand) .

Notes to the financial statements (cont'd)

15. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other fixtures and fittings, tools and equipment	Communica tions and IT equipment	Total
	EUR	EUR	EUR	EUR	EUR
Acquisition value					
01.01.2016	9,631	343,747	247,126	1,408,658	2,009,162
Additions	59,453	10,010	5,855	433,796	509,114
Sold	-	(96,152)	-	(6,520)	(102,672)
Disposed off	-	-	(19,281)	(260,223)	(279,504)
Written off	-	-	-	(4,985)	(4,985)
31.12.2016	69,084	257,605	233,700	1,570,726	2,131,115
Depreciation					
01.01.2016	4,786	220,472	228,267	1,111,641	1,565,166
Charge for the year 2016	9,771	57,487	8,380	290,855	366,493
Sold	-	(95,713)	-	(5,895)	(101,608)
Disposed off	-	-	(19,281)	(260,223)	(279,504)
Written off	-	-	-	(3,529)	(3,529)
31.12.2016	14,557	182,246	217,366	1,132,849	1,547,018
Net carrying amount as at 31.12.2016	54,527	75,359	16,334	437,877	584,097
Acquisition value					
01.01.2017	69,084	257,605	233,700	1,570,726	2,131,115
Additions	-	-	17,422	375,246	392,668
Sold	-	(95,716)	-	(4,948)	(100,664)
Disposed off	-	-	(19,654)	(20,187)	(39,841)
Written off	-	-	-	(1,972)	(1,972)
31.12.2017	69,084	161,889	231,468	1,918,865	2,381,306
Amortization					
01.01.2017	14,557	182,246	217,366	1,132,849	1,547,018
Charge for the year 2017	13,816	34,764	10,188	402,496	461,264
Sold	-	(95,716)	-	(3,747)	(99,463)
Disposed off	-	-	(19,654)	(20,187)	(39,841)
Written off	-	-	-	(1,392)	(1,392)
31.12.2017	28,373	121,294	207,900	1,510,019	1,867,586
Net carrying amount as at 31.12.2017	40,711	40,595	23,568	408,846	513,720
Net carrying amount as at 31.12.2016	54,527	75,359	16,334	437,877	584,097

The net carrying amount of assets held under finance lease terms as at 31 December 2017 was as follows: vehicles of EUR 25,982 (as at 31 December 2016: vehicles of EUR 51,453). Title to assets held under finance lease terms will be transferred to the Company only after all the lease commitments are settled (see Note 22).

The cost of fully depreciated property, plant and equipment at 31 December 2017 was EUR 1,365 thousand (as at 31 December 2016: EUR 1,097 thousand).

All the Company's property, plant and equipment are in Latvia.

Notes to the financial statements (cont'd)

16. Investments in related companies

Information about investments in subsidiaries

Company	Carrying amount of equity interest in subsidiaries		Equity interest in subsidiaries	
	31.12.2017 EUR	31.12.2016 EUR	31.12.2017 %	31.12.2016 %
ELKO Trading Switzerland AG	60,757	60,757	100	100
ELKO Marketing Ltd	2,436	2,436	100	100
ELKO Eesti OU	100,164	100,164	100	100
ELKO Lietuva UAB *	2,501	161,241	100	100
ELKO Kazakhstan LLP	49,231	49,231	100	100
ELKOTech Romania SRL	3,759,099	3,759,099	100	100
ELKO Ukraine LLC	24	24	100	100
ELKO RUS LTD **	35,824	-	100	-
AST Balts SIA ***	3,600,000	-	100	-
Gandalf Distribution AB ****	4,151,186	-	85	-
ELKOTEX d.o.o.	80,933	80,933	51	51
WESTech Spol s.r.o.	9,361	9,361	51	51
ELKO Mobile Ltd	799,682	799,682	51	51
	<u>12,651,198</u>	<u>5,022,928</u>		

* On 17 August 2017, AS ELKO Grupa decided to reduce share capital of its subsidiary ELKO Lietuva UAB to EUR 2,501. AS ELKO Grupa reduced the allowances for impairment of ELKO Lietuva UAB established in 2008 by EUR 579,203, received part of the reduced share capital of EUR 349,010 and wrote off the investment of EUR 388 933 to the new share capital amount of EUR 2,501.

** On 24 August 2017, AS ELKO Grupa decided to acquire legal title to 100% of shares in its subsidiary ELKO RUS LTD.

*** On 7 July 2017, the Company acquired 100% of shares in the company AST Balts SIA.

**** On 4 July 2017, the Company acquired 85% of shares in Gandalf Distribution AB, one of the leading distributors of computer and electronic equipment in Sweden. Under the terms of the acquisition agreement, the Company has an option to purchase 15% shares for SEK 6,000,000 (EUR 609,521) until 30 September 2019 (see Note 31).

***** Elko Grupa AS owns 0.01% of the ELKO Ukraine LLC share capital, while the rest 99.99% are owned by the subsidiary ELKO Marketing Ltd.

Information about subsidiaries

Company	Address	Equity	
		31.12.2017 EUR	31.12.2016 EUR
ELKO Trading Switzerland AG	Switzerland, 6304 Zug, Baarerstrasse 43	4,233,193	8,154,959
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	12,551,476	14,257,465
ELKO Eesti OU	Estonia, Tallinn, Tammsaare tee 47	27,858	27,858
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	92,460	417,333
ELKO Kazakhstan LLP	Dzhambula 118, 1, Almaty, Kazakhstan 050026	(218,813)	(139,835)
ELKOTech Romania SRL	Romania, Bucharest, Copilului 6-12	3,580,555	3,524,078
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	(5,539,886)	(7,865,706)

Notes to the financial statements (cont'd)

16. Investments in related companies (cont'd)

Company	Address	31.12.2017	31.12.2016
ELKO RUS LTD	143441, Moscow, Krasnogorsky region, Putilkovo, 69 km MKAD, office 506 , Russian Federation	37,180	-
AST Balts SIA	Toma 4, Riga, Latvia, LV-1003	107,578	-
Gandalf Distribution AB	Citadellsvagen 23, 211 18 Malmo, Sweden	3,131,302	-
ELKOTEX d.o.o.	Slovenia, Ljubljana, Stegne 027	2,035,697	1,705,065
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	17,093,193	13,161,196
ELKO Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	(2,559,186)	(2,929,821)

Profit/ (loss) for the year

Company	Address	2017 EUR	2016 EUR
ELKO Trading Switzerland AG	Switzerland, 6304 Zug, Baarerstrasse 43	1,309,097	4,090,275
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	20,697	11,143
ELKO Eesti OU	Estonia, Tallinn, Tammsaare tee 47	-	-
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	41,563	30,003
ELKO Kazakhstan LLP	Dzhambula 118, 1, Almaty, Kazakhstan 050026	(100,810)	50,755
ELKOTech Romania SRL	Romania, Bucharest, Copilului 6-12	149,712	146,692
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	1,263,993	(4,813,057)
ELKO RUS LTD	143441, Moscow, Krasnogorsky region, Putilkovo, 69 km MKAD, office 506 , Russian Federation	1,212	-
AST Balts SIA	Toma 4, Riga, Latvia, LV-1003	(14,423)	-
Gandalf Distribution AB*	Citadellsvagen 23, 211 18 Malmo, Sweden	594,509*	-
ELKOTEX d.o.o.	Slovenia, Ljubljana, Stegne 027	330,686	136,419
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	5,131,997	4,629,570
Elko Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	16,879	(5,502,596)

* 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 Company acquired Gandalf Distribution AB because it significantly enlarges the range of products and Elko Group presence on the Nordic market.

Equities of subsidiaries are translated into the euro at the exchange rate published by the European Central Bank at the last day of the reporting year. Financial results of subsidiaries are reported in the euro, applying the average exchange rate set by the European Central Bank for the reporting year.

Financial results and equities of subsidiaries are presented to the extent of the share of AS ELKO Grupa.

Notes to the financial statements (cont'd)

17. Finished goods and goods for sale

	31.12.2017	31.12.2016
	EUR	EUR
Goods at warehouses	17,794,919	16,012,680
Goods in transit	7,619,435	11,732,345
	<u>25,414,354</u>	<u>27,745,025</u>

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

18. Trade receivables

	31.12.2017	31.12.2016
	EUR	EUR
Trade receivables, gross	27,462,896	29,391,942
Allowances for bad and doubtful trade receivables	(61,552)	(151,533)
	<u>27,401,344</u>	<u>29,240,409</u>

Trade receivables are non-interest bearing and are generally due in 30 to 90 days.

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

	Total	Neither past due nor impaired	Past due but not impaired, days			
			<45	46-90	91-180	>180
Balance as at 31 December 2017	27,401,344	15,022,785	464,180	11,852,827	5,396	56,156
Balance as at 31 December 2016	29,240,409	28,775,984	192,264	120,628	55,303	96,230

	Individually impaired	Collectively impaired	TOTAL
	EUR	EUR	EUR
Balance as at 31 December 2015	<u>137,444</u>	-	<u>137,444</u>
Charge for the year	66,755	-	66,755
Utilized	(52,666)	-	(52,666)
Balance as at 31 December 2016	<u>151,533</u>	-	<u>151,533</u>
Charge for the year	51,798	-	51,798
Utilized	(141,779)	-	(141,779)
Balance as at 31 December 2017	<u>61,552</u>	-	<u>61,552</u>

Notes to the financial statements (cont'd)

19. Other receivables

	31.12.2017	31.12.2016
	EUR	EUR
VAT overpaid in the Netherlands (see Note 30)	3,063,646	1,853,691
VAT overpaid in Latvia (see Note 30)	40,939	160,039
Deposits made to suppliers*	93,805	5,229,390
Overpayment of corporate income tax (see Note 30)	-	127,482
Overpayment of personal income tax (see Note 30)	860	839
Other receivables	178,677	551,765
	<u>3,377,927</u>	<u>7,923,206</u>

20. Prepaid expenses and prepayments

	31.12.2017	31.12.2016
	EUR	EUR
Lease of premises	-	87,750
Insurance	6,205	7,982
Commission fee for the bond issue *	42,222	95,556
Pre-payments	48,871	3,775
Other expenses	158,115	182,616
	<u>255,413</u>	<u>377,679</u>

* In 2015, the Company issued bonds amounting to EUR 8 million. The bonds mature on 16 October 2018. According to the conditions of the agreement, AS ELKO Grupa paid a commission fee to Baltikums Bank AS, which organized the bond issue. This commission fee is written off on a straight-line basis until the maturity of the bonds (see also Note 25).

21. Short-term deposits

	31.12.2017	31.12.2016
	EUR	EUR
Short-term deposits	917,202	948,677
	<u>917,202</u>	<u>948,677</u>

On 9 September 2016, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the Company's subsidiary Elko Ukraine LLC towards JSC Ukrsibbank amounting to USD 1,000,000 (EUR 833,820). The guarantee will be effective until 7 October 2018. Upon execution of the agreement, AS ELKO Grupa placed a security deposit of USD 500,000 (EUR 416,910) for the above mentioned bank guarantee.

On 7 October 2016, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the Company's subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank amounting to USD 1,000,000 (EUR 833,820). The guarantee will be effective until 5 November 2018. Upon execution of the agreement, AS ELKO Grupa placed a security deposit of USD 500,000 (EUR 416,910) for the above mentioned bank guarantee.

On 18 September 2017, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the Company's subsidiary Elko Kazakhstan LLP towards Alfa-Bank JSC SB amounting to USD 200,000 (EUR 166,764). The guarantee will be effective until 15 September 2018. Upon execution of the agreement, AS ELKO Grupa placed a security deposit of USD 100,000 (EUR 83,382) for the above mentioned bank guarantee.

Notes to the financial statements (cont'd)

22. Derivative financial instruments

22.1 Financial assets

	2017 EUR	2016 EUR
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges		
- foreign exchange forward contracts	51,542	3,408
Total financial instruments at fair value through profit or loss	51,542	3,408
	31/12/2017	31/12/2016
	EUR	EUR
Total financial assets	51,542	3,408

As at 31 December 2017, effective foreign exchange forward contracts for the sale of RUB against USD amounted to RUB 1.401 billion (EUR 20.377 million) (2016: RUB 1.777 billion) with an average maturity of 26 days and for the sale of RON against USD amounted to RON 16.0 million (EUR 3.435 million) (RON 3. (2016: RON 17.0 million (EUR 3.649 million) expiring on 23 March 2017, as well as for the purchase of EUR 4.1 million against USD (2016: EUR 0 million) with an average maturity of 11 days. As at 31 December 2017, the fair value of these agreements was EUR 453,881 (as at 31 December 2016: EUR 1,019,424), with revenues comprising EUR 51,542 (as at 31 December 2016: EUR 3,408) and losses - EUR 505,422 (2016: EUR 1,022,832). Foreign exchange forward agreements are valued at the fair value which is calculated at market rates (see Note 37).

22.2 Financial liabilities

	2017 EUR	2016 EUR
Financial instruments at fair value through profit or loss		
- foreign exchange forward contracts	(505,422)	(1,022,832)
Total financial instruments at fair value through profit or loss	(505,422)	(1,022,832)
	31/12/2017	31/12/2016
	EUR	EUR
Total financial liabilities	(505,422)	(1,022,832)

In 2017, derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

Notes to the financial statements (cont'd)

22. Derivative financial instruments (cont'd)

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

	31.12.2017		31.12.2016	
	EUR		EUR	
	Assets	Liabilities	Assets	Liabilities
Non-current derivative financial instruments	-	-	-	-
Current derivative financial instruments	51,542	(505,422)	3,408	(1,022,832)
	51,542	(505,422)	3,408	(1,022,832)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. See also Note 37 on fair value of derivative financial instruments.

23. Cash and short-term deposits

	31.12.2017	31.12.2016
	EUR	EUR
Cash at bank	472,969	4,496,678
	472,969	4,496,678

24. Share capital and reserves

24.1 Share capital

As at 31 December 2017, the Company's registered and paid-in share capital was EUR 9,784,790 (as at 31 December 2016: EUR 9,784,790) and consisted of 9,784,790 shares (as at 31 December 2016: 9,784,790 shares). The par value per share is EUR 1.00 (as at 31 December 2016: EUR 1.00).

24.2 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 in the amount of EUR 4,973,947 was recognised.

24.3 Earnings per share

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

The following table shows the income and shareholding data used in the earnings per share computations:

	2017	2016
	EUR	EUR
Profit attributable to equity holders of the Company	4,071,307	8,364,304
Weighted average number of issued ordinary shares	9,784,790	9,784,790
Earnings per share (EUR per share)	0.42	0.85

Notes to the financial statements (cont'd)

25. Debt securities

On 16 October 2015, the Company issued bonds amounting to EUR 8 million. The bonds mature on 16 October 2018 (ISIN: LV0000801892). The bonds bear interest at a fixed rate (coupon) of 8% per annum. At the year end, issued debt securities (bonds) are recorded at their par value. The fair value of bonds is disclosed in Note 37

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

26. Other borrowings

Non-current portion

	31.12.2017	31.12.2016
	EUR	EUR
Portion of finance leases maturing between 1 and 5 years	2,469	18,090
	<u>2,469</u>	<u>18,090</u>

Current portion

Portion of finance leases maturing within one year	15,621	33,047
	<u>15,621</u>	<u>33,047</u>

As disclosed in Note 15, the Company has acquired assets under finance lease terms. The present value of finance lease liabilities may be specified as follows:

Portion of finance leases maturing within one year	15,621	33,047
Portion of finance leases maturing between 1 and 5 years	2,469	18,090
	<u>18,090</u>	<u>51,137</u>

Finance lease liabilities – minimum lease payments:

Portion of finance leases maturing within one year	16,012	33,913
Portion of finance leases maturing between 1 and 5 years	2,531	18,564
	<u>18,543</u>	<u>52,477</u>

Future finance charges	(543)	(1,340)
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Present value of finance lease liabilities	<u>18,090</u>	<u>51,137</u>
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The effective interest rate applied to finance leases as at 31 December 2017 was 2.50% (as at 31 December 2016: 2,62%).

In 2017, the Company paid EUR 33,047 for assets held under finance lease terms (in 2016: EUR 52,744).

27. Loans from credit institutions

	31.12.2017	31.12.2016
	EUR	EUR
Credit line from AS Swedbank *	91,796	693,819
Credit line from AS SEB Banka **	3,221,103	23,564,076
Credit line from AS Lumnor Bank**	6,849,574	22,036,392
Credit line from OP Corporate Bank plz Latvia branch ****	12,493,727	14,200,225
Trade finance program*****	12,853,921	-
Credit balance of credit cards	5,104	5,509
	<u>35,515,225</u>	<u>60,500,021</u>

Notes to the financial statements (cont'd)**27. Loans from credit institutions (cont'd)**

* On 27 December 2017 AS ELKO Grupa signed an agreement amending the credit line agreement with AS Swedbank dated 5 November 2015. According to the amendments, the base interest rate remained 3-month LIBOR USD, while the margin was increased from 3.5% to 4.5% per annum. Until 31 March 2018 the maximum limit remained USD 7,500,000, for the period from 01/04/2018 to 30/06/2018 the maximum limit was reduced to USD 2,000,000 and for the period from 01/07/2018 to 05/11/2018 the maximum limit was set at USD 7,500,000. The credit line matures on 5 November 2018.

* On 25 July 2017, AS ELKO Grupa signed an agreement amending the credit line agreement with AS SEB Banka dated 5 November 2015. According to the amendments, the base interest rate remained 3-month LIBOR USD, while the margin was increased from 2.95% to 3.45% per annum. The maximum limit amounts to USD 15,000,000 (2016: USD 25,000,000). The credit line matures on 31 July 2018.

*** On 31 July 2017, AS ELKO Grupa signed an agreement amending the overdraft agreement with AS Luminor Bank dated 5 November 2015. According to the amendments, the base interest rate remained overnight LIBOR USD/EONIA EUR, while the margin was increased from 3.2% to 3.55% per annum. The maximum overdraft limit remained USD 30,498,963 (2016: USD 30,498,963). The overdraft matures on 31 July 2018.

**** On 25 July 2017, AS ELKO Grupa signed an agreement amending the overdraft agreement with OP Corporate Bank plz Latvia branch dated 29 July 2016. According to the amendments, the base interest rate remained 3-month LIBOR USD, while the margin was increased from 3.0% to 3.1% per annum. The maximum limit amounts to USD 15,000,000 (2016: USD 15,000,000). The credit line matures on 25 July 2018.

***** On 21 December 2015, AS „LKO Grupa signed agreement with AG Deutsche Bank New York branch about financing of AS ELKO Grupa debt suppliers. The total financing limit for suppliers at 31 December 2017 is USD 20,000,000. The agreement is valid until 17 September 2018, where the base interest rate is 3-month LIBOR USD, but the added interest rate is 3.75% per annum.

The effective interest rate on bank borrowings as at 31 December 2017 was 4.57% (as at 31 December 2016: 3.06%).

28. Other liabilities

	31.12.2017	31.12.2016
	EUR	EUR
Bonuses for the reporting year	303,873	226,711
Other liabilities	51,248	6,849
	<u>355,121</u>	<u>233,560</u>

29. Deferred tax

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

	31.12.2017	31.12.2016
	EUR	EUR
Deferred income tax assets:		
- deferred tax assets recoverable within one year	9,233	61,368
	<u>9,233</u>	<u>61,368</u>
Deferred income tax liabilities:		
- valuation allowance for unrecognized deferred tax assets	20,667	(27,679)
- deferred tax liabilities recoverable in more than one year	(29,900)	(34,458)
- deferred tax liabilities recoverable within one year	-	769
	<u>(9,233)</u>	<u>(61,368)</u>
Net deferred tax liabilities	<u>-</u>	<u>-</u>

Notes to the financial statements (cont'd)**29. Deferred tax (cont'd)**

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

Deferred income tax liabilities:		
Depreciation	29,900	33,689
Deferred income tax assets:		
Vacation pay reserve	-	(30,610)
Accumulated bad receivables	(9,233)	(22,730)
Provisions for RMA liabilities	-	(8,028)
Valuation allowance for deferred tax assets *	-	(27,679)
Deferred tax liabilities	20,667	-

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

** Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax liabilities or assets which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss or reserves, depending on whether deferred tax liabilities or assets were recognized initially in the statement of profit or loss or reserves, in the financial statements for the year ended 31 December 2017; according to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted. In 2017, AS ELKO Grupa did not reverse any deferred tax liabilities or assets, as they were not recognized in the previous reporting periods.

Notes to the financial statements (cont'd)

30. Taxes payable

	Corporate income tax	VAT (Latvia)	VAT (Netherland s)	Social insurance contribution s	Personal income tax	Unemploym ent risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Liabilities							
31.12.2015	-	9,722	-	-	-	-	9,722
(Receivable)							
31.12.2015	(159,165)	-	(2,635,587)	-	-	-	(2,794,752)
Calculated for 2016	339,118	(908,095)	(4,940,042)	1,721,366	995,607	971	(2,791,075)
Refunded from the budget	-	1,191,834	5,721,938	-	-	-	6,913,772
Paid in 2016	(307,435)	(453,500)	-	(1,721,366)	(996,446)	(971)	(3,479,718)
Liabilities							
31.12.2016	-	-	-	-	-	-	-
(Receivable)							
31.12.2016	(127,482)	(160,039)	(1,853,691)	-	(839)	-	(2,142,051)
Calculated for 2017	582,624	(374,985)	(5,073,109)	1,868,540	1,051,238	1,138	(1,944,554)
Refunded from the budget	-	623,785	3,863,154	-	-	-	4,486,939
Paid in 2017	(214,799)	(129,700)	-	(1,868,540)	(1,051,259)	(1,138)	(3,265,436)
Liabilities							
31.12.2017	240,343	-	-	-	-	-	240,343
(Receivable)							
31.12.2017	-	(40,939)	(3,063,646)	-	(860)	-	(3,105,445)

* Overpaid taxes are disclosed as other receivables (see Note 19).

Notes to the financial statements (cont'd)

31. Accrued liabilities

	31.12.2017	31.12.2016
	EUR	EUR
Vacation pay reserve	238,525	204,070
Marketing	-	141,553
RMA provisions (see also Note 33)	-	53,518
Other accrued expense	527,461	330,670
Interest accrued on loans from related companies	15,507	75,378
Interest accrued on long-term debt securities (see Note 25)	135,014	135,014
Accrued expenses for the acquisition of shares (see Note 16) *	609,521	-
	<u>1,526,028</u>	<u>940,203</u>

* On 4 July 2017, the Company acquired 85% of shares in Gandalf Distribution AB, one of the leading distributors of computer and electronic equipment in Sweden. Under the terms of the acquisition agreement, the Company has an option to purchase 15% shares for SEK 6,000,000 (EUR 609,521) until 30 September 2019.

32. Average number of employees

	2017	2016
Average number of employees during the reporting year:	<u>248</u>	<u>223</u>

33. Provisions

	RMA provisions
	EUR
As at 31 December 2016	<u>76,051</u>
Arising during the year	-
Utilized	(22,533)
Unused amounts reversed	-
As at 1 January 2017	<u>53,518</u>
Arising during the year	-
Utilized	(53,518)
Unused amounts reversed	-
As at 31 December 2017	<u>-</u>

The Company's vendors generally warrant the products distributed by the Company and allow returning defective products, including those that have been returned to the Company by its customers. Based on the past experience and the contractual agreements with vendors, the Company assesses that the receipt of the reimbursement from vendors is virtually certain. The Company does not independently warrant the products it distributes. Historically the Company 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. The amount of provision with respect to warranties is disclosed in Note 7, 31 and 33.

Notes to the financial statements (cont'd)

34. Management remuneration

	2017	2016
	EUR	EUR
Board Members		
- wages and salaries	275,078	219,436
- statutory social insurance contributions	60,645	51,765
	<hr/>	
	335,723	271,201
	<hr/> <hr/>	

The Board and Council Members do not receive remuneration for their functions in the Board and Council of the Company. Remuneration disclosed in Note 30 represents salaries paid for the execution of official duties under employment contracts.

35. Pledges and issued guarantees

On 12 November 2015, AS ELKO Grupa issued a guarantee to Schneider Electric IT Logistics Europe Ltd for the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 250,000. On 27 November 2017, the amount of the liabilities was increased to EUR 300,000. The guarantee will be effective until 27 November 2019.

On 29 April 2015, AS ELKO Grupa issued a guarantee to Banca Transilvania S.A. for the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 6,700,000. On 5 September 2017, the guarantee was amended and the amount changed to RON 47,400,000. The guarantee will be effective until the liabilities are fully settled.

On 20 May 2016, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary ELKOTech Romania SRL amounting to USD 5,000,000. On 13 December 2017, the maturity of the guarantee was extended until 30 June 2018.

On 31 August 2016, AS ELKO Grupa issued a guarantee to IBM Slovakia LTD for the liabilities of the subsidiary ELKOTech Romania SRL amounting to EUR 1,500,000. On 19 July 2017, the maturity of the guarantee was extended until 30 September 2018.

On 13 December 2017, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary Elko Mobile Ltd amounting to USD 5,000,000. The guarantee will be effective until 30 June 2018.

On 13 December 2017, AS ELKO Grupa issued a guarantee to IBM Belgium Financial Services Company S.P.R.L. for the liabilities of the subsidiary Elko Mobile Ltd amounting to USD 40,500,000 (in 2016: EUR 40,000,000). The guarantee will be effective until 31 December 2018.

On 3 April 2017, AS ELKO Grupa signed an agreement with OTP Bank PJSC on the decrease of the amount of the guarantee issued on 25 June 2014 to UAH 75,000,000 (2016: UAH 150,000,000). AS ELKO Grupa issued a guarantee to OTP Bank PJSC for the liabilities of the subsidiary Elko Ukraine LLC. The guarantee will be effective until 29 April 2019.

On 25 August 2016, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary ALMA LLC amounting to USD 20,000,000. On 8 August 2017, the maturity of the guarantee was extended until 8 August 2018.

On 24 July 2014, AS ELKO Grupa issued a guarantee to ALFABANK for the liabilities of the subsidiary Elko Kazakhstan amounting to KZT 767,812,500. On 27 February 2017, the guarantee was amended. According to the amendments, the amount was decreased to KZT 750,000,000 and the maturity extended until 25 February 2020.

On 9 September 2016, AS Luminor Bank on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the Company's subsidiary Elko Ukraine LLC towards JSC Ukrsibbank amounting to USD 1,000,000. On 25 September 2017, the maturity of the guarantee was extended until 7 October 2018.

On 7 October 2016, AS Luminor Bank on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the Company's subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank amounting to USD 1,000,000. On 25 September 2017, the maturity of the guarantee was extended until 5 November 2018.

On 30 May 2016, AS ELKO Grupa issued a performance guarantee to Intel Corp (UK) Ltd. for the liabilities of the subsidiary ALMA LLC towards the beneficiary - Intel Corp (UK) Ltd. The guarantee will be effective until 30 May 2018.

Notes to the financial statements (cont'd)**35. Pledges and issued guarantees (cont'd)**

On 14 September 2017, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary ELKO Ukraine LLC amounting to USD 5,000,000. The guarantee will be effective until 14 September 2018.

On 18 September 2017, AS Luminor Bank on behalf of AS ELKO Grupa issued a letter of credit for the liabilities of the Company's subsidiary Elko Kazakhstan LLP towards Alfa-Bank JSC SB amounting to USD 200,000. The guarantee will be effective until 15 September 2018.

On 6 June 2017, AS ELKO Grupa issued a guarantee to Sberbank PAO for the liabilities of the subsidiary ALMA LLC amounting to RUB 1,700,000,000. The guarantee will be effective until 02 October 2018.

On 14 September 2017, AS ELKO Grupa issued a guarantee to Sberbank PAO for the liabilities of the subsidiary ALMA LLC amounting to RUB 1,300,000,000. The guarantee will be effective until 02 February 2019.

On 12 October 2017, AS ELKO Grupa issued a guarantee to Sberbank PAO for the liabilities of the subsidiary ALMA LLC amounting to RUB 200,000,000. The guarantee will be effective until 25 February 2018.

On 21 December 2015, AS ELKO Grupa entered into an agreement with AG Deutsche Bank New York branch on the financing of trade payables of AS ELKO Grupa and Elko Mobile Ltd. According to the agreement, AS ELKO Grupa has guaranteed the portion of the total limit used by Elko Mobile Ltd. As at 31 December 2017, the total trade financing limit assigned to both companies by AG Deutsche Bank New York branch was USD 20,000,000. The guarantee will be effective until 17 September 2018.

On 27 December 2017, AS ELKO Grupa entered into an agreement with Swedbank AS on the extension of the guarantee issued on 2 July 2010. Swedbank AS issued a guarantee to Intel Corporation (UK) LTD for the liabilities of AS ELKO Grupa towards the beneficiary of the guarantee Intel Corporation (UK) LTD amounting to USD 1,000,000 (2016: USD 1,000,000). The guarantee will be effective until 30 November 2018.

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

Notes to the financial statements (cont'd)

36. Related party disclosures

During the reporting year, AS ELKO Grupa sold computer components and provided services to its subsidiaries worth EUR 305 million (2016: EUR 295 million). In 2017, payments for these supplies were made by the contractual due dates.

The Company had the following transactions with related parties:

Company	Sales - goods, services, other transactions		Purchases - goods, services, other transactions	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
ELKO Trading Switzerland AG	272,333,729	255,820,451	2,250,294	2,808,726
ELKO Eesti OU	-	-	369,505	366,920
ELKO Lietuva UAB	496	64	534,075	475,930
Elko Mobile Ltd	2,704,724	8,768,993	5,780	-
ELKOTEX d.o.o.	8,862,814	7,625,370	138,892	56,221
ELKOTech Romania SRL	15,002,666	17,077,245	512,244	178,786
WESTech Spol s.r.o.	4,442,301	5,722,368	985,198	134,724
ELKO Kazakhstan LLP	-	-	-	-
ELKO Marketing Ltd	-	-	-	-
SIA "AST Balts"	-	171,769	1,248,699	1,221,018
ELKO Ukraina TOB	17,266	-	-	-
Gandalf Distribution AB	1,612,531	-	3,511	-
	<u>304,976,527</u>	<u>295,186,260</u>	<u>6,048,198</u>	<u>5,242,325</u>

Receivables and payables arising from transactions with related parties:

Company	Amounts due from subsidiaries		Amounts due to subsidiaries	
	31.12.2017 EUR	31.12.2016 EUR	31.12.2017 EUR	31.12.2016 EUR
ELKO Trading Switzerland AG *	33,497,580	32,059,068	80,199	200,542
ELKO Eesti OU	-	-	40,589	39,579
ELKO Lietuva UAB	-	-	44,521	71,553
ELKOTEX d.o.o.	753,354	747,519	5,212	3,430
ELKOTech Romania SRL	1,575,358	1,202,396	721	74
ELKO Marketing Ltd	-	-	-	-
Elko Mobile Ltd **	8,040,095	3,782,449	-	-
WESTech Spol s.r.o.	352,577	111,977	139,779	15,889
SIA "AST Balts" ***	396,624	-	19,729	-
Gandalf Distribution AB	869,861	-	-	-
	<u>45,485,449</u>	<u>37,903,409</u>	<u>330,750</u>	<u>331,067</u>

* Including interest payable for current loans: EUR 1,076,552 as at 31 December 2017 (as at 31 December 2016: EUR 383,395).

** Including interest payable for current loans: EUR 5,678,280 in 2017 (2016: EUR 3,782,449).

*** Including interest payable for current loans: EUR 396,624 in 2017.

Notes to the financial statements (cont'd)

36. Related party disclosures (cont'd)

Non-current loans to related companies

	31.12.2017	31.12.2016
	EUR	EUR
Loan to SIA AST Balts	3,426,000	3,426,000
	<u>3,426,000</u>	<u>3,426,000</u>

On 25 August 2015, AS ELKO Grupa entered into a loan agreement with its subsidiary SIA AST Balts. The amount of the loan is EUR 3,426,000. The interest rate is set at 5% per annum. The loan matures on 31 August 2020.

Current loans to related companies

	31.12.2017	31.12.2016
	EUR	EUR
Credit line issued to ELKO Trading Switzerland AG, carrying amount *	28,055,501	31,920,086
Loan issued to ELKO Mobile Ltd., carrying amount **	22,528,726	56,080,740
	<u>50,584,227</u>	<u>88,000,826</u>

* On 2 October 2017, the Company signed an agreement amending the credit line agreement dated 29 July 2016 with the subsidiary ELKO Trading Switzerland. According to the amendments, the maturity has been extended to 5 November 2018. According to the amendments, the maximum credit line amount is USD 67,998,963 (as at 31 December 2016: USD 77,998,963); the credit line bears interest at 7.3% per annum (2016: 4.7%).

** On 2 October 2017, the Company signed an agreement amending the loan agreement dated 19 May 2015 with the subsidiary ELKO Mobile Ltd. According to the amendments, the maturity has been extended to 28 December 2018. The maximum loan amount is USD 50,000,000 (as at 31 December 2016: USD 85,000,000); the loan bears interest at 6.7% per annum (2016: 5%).

Current loans received from related parties

	31.12.2017	31.12.2016
	EUR	EUR
Current loan received from ELKO Lietuva UAB, current amount *	-	260,658
Current loan received from WESTech spol.s.r.o., current amount **	9,500,000	7,000,000
	<u>9,500,000</u>	<u>7,260,658</u>

* On 6 December 2017, the Company terminated the loan agreement with the subsidiary ELKO Lietuva UAB. The loan amount was EUR 260,658 and bore interest at 5% per annum.

** On 20 December 2017, the Company signed an agreement amending the loan agreement dated 30 December 2015 with the subsidiary WESTech spol.s.r.o.. According to the amendments, the maturity has been extended to 30 March 2018. The maximum loan amount is EUR 7,000,000; the loan bears interest at 3% per annum. On 20 March 2018, the Company signed an agreement amending the loan agreement dated 30 December 2015 with the subsidiary WESTech spol.s.r.o.. According to the amendments, the maturity has been extended to 29 June 2018.

On 19 October 2017, AS ELKO Grupa entered into a loan agreement with its subsidiary WESTech spol.s.r.o.. The amount of the loan is EUR 2,500,000. The interest rate is set at 3% per annum. The loan matures on 31 January 2018. On 20 March 2018, the Company signed an agreement amending the loan agreement dated 19 October 2017 with the subsidiary WESTech spol.s.r.o.. According to the amendments, the maturity has been extended to 29 June 2018.

Notes to the financial statements (cont'd)

37. Fair value measurement

Fair value measurement hierarchy as at 31 December 2017

	Date of valuation	Total	Quoted prices in active markets (Level 1)	Observable inputs (Level 2)	Unobservable inputs (Level 3)
		EUR	EUR	EUR	EUR
Assets measured at fair value:					
Non-current loans to related companies (Note 36)	31 December 2017	3,426,000	-	-	3,426,000
Current loans to related companies (Note 36)	31 December 2017	55,584,227	-	-	55,584,227
Liabilities measured at fair value:					
Bonds (Note 25)	31 December 2017	8,102,899	-	8,102,899	-
Obligations under finance lease (Note 26)	31 December 2017	18,090	-	18,090	-
Loans from credit institutions (Note 27)	31 December 2017	30,661,304	-	30,661,304	-
Loans from related companies (Note 36)	31 December 2017	9,500,000	-	-	9,500,000

Fair value measurement hierarchy as at 31 December 2016

	Date of valuation	Total	Quoted prices in active markets (Level 1)	Observable inputs (Level 2)	Unobservable inputs (Level 3)
		EUR	EUR	EUR	EUR
Assets measured at fair value:					
Non-current loans to related companies (Note 32)	31 December 2016	3,426,000	-	-	3,426,000
Current loans to related companies (Note 32)	31 December 2016	88,000,826	-	-	88,000,826
Liabilities measured at fair value:					
Bonds (Note 21)	31 December 2016	8,640,000	-	8,640,000	-
Obligations under finance lease (Note 22)	31 December 2016	51,137	-	51,137	-
Loans from credit institutions (Note 23)	31 December 2016	60,500,021	-	60,500,021	-
Loans from related companies (Note 32)	31 December 2016	7,260,658	-	-	7,260,658

Notes to the financial statements (cont'd)

37. Fair value measurement (cont'd)

Financial assets and liabilities for which fair values are disclosed	Date of valuation	Total EUR	Quoted prices in active markets	Observable inputs	Unobservable inputs
			(Level 1) EUR	(Level 2) EUR	(Level 3) EUR
Derivative financial instruments (Note 18)	31 December 2017	51,542	-	51,542	-
Derivative financial instruments (Note 18)	31 December 2017	(505,422)	-	(505,422)	-
Derivative financial instruments (Note 18)	31 December 2016	3,408	-	3,408	-
Derivative financial instruments (Note 18)	31 December 2016	(1,022,832)	-	(1,022,832)	-

There is no transfer between L1 and L2 during 2017.

38. Financial risk management

Geopolitical risk

The Company operates internationally and has substantial activities in CIS region. Political tension between Russia and Ukraine has destabilized East European region. Russia has seen recession for the past two years which was caused by low oil prices and Western economic sanctions and since then ruble towards USD dollar has deteriorated by 50%. Amid Russia/Ukraine political conflict and war real GDP fell by 15.9% during 2014-2015. Since the end of 2014 Ukrainian hryvnia has devaluated by 70% towards US dollar. Despite continuous support from Western countries the increase in inflation and steep devaluation of currency has decreased the purchasing power in Ukraine. These and any further negative developments between Russia and Ukraine could adversely impact results and financial position of the Company in a manner not currently determinable. To mitigate foreign currency translation risks the Company uses financial instruments. Management is closely monitoring the economic situation and developments in East European region to mitigate possible currency fluctuation risks as well as overall risks this might have on the business performance.

Multi-currency settlement risk

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

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

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

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

Increase / decrease in US dollar rate to EUR	Effect on profit ('000)	Effect on equity ('000)
2017		
+15%	(4,139)	(4,139)
-15%	4,139	4,139
2016		
+5%	(1,281)	(1,281)
-5%	1,281	1,281

Notes to the financial statements (cont'd)

38. Financial risk management (cont'd)

Derivative financial instruments and risk hedging

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

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

The fair value of derivative financial instruments used as hedging instruments is disclosed in Note 22.

Interest rate risk

AS ELKO Grupa exposure to the risk of changes in market interest rates relates primarily to the Company's short-term borrowings to finance a part of its working capital needs, which exposes the Company'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 Company's borrowings at variable rates were predominantly denominated in US dollars (Note 23).

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

	The base rate increase/ decrease	Effect on profit before tax (‘000)
2017	+10	+55
	-10	-55
2016	+10	+48
	-10	-48

Credit risk

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

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

The maximum exposure as at 31 December 2017 is EUR 131,264 thousand (as at 31 December 2016: EUR 172,557).

The main customers of the Company are related parties with mutual transactions comprising 77% (in 2016: 70%) of the total net turnover. Company's net turnover is mostly generated by transactions with the CIS and Central and Eastern European customers (see Note 36). The Company does not have a single customer in the Baltic region with transactions comprising 10% of its turnover generated in the Baltic.

Notes to the financial statements (cont'd)

38. Financial risk management (cont'd)

Liquidity risk

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

The earliest possible date for exercising the guarantees is at request and the maximum claim amount was EUR 45,992,134 as at 31 December 2017. The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 based on contractual undiscounted payments in EUR'000:

Year ended 31/12/2017	On demand	< 3 months	3 - 12	1 - 5	Total
	EUR'000	EUR'000	months	years	
			EUR'000	EUR'000	EUR'000
Non-current borrowings	-	-	-	2	2
Bonds	-	-	-	8,640	8,640
Current borrowings	-	9,500	30,677	-	40,177
Trade and other payables	-	74,982	-	-	74,982
Other liabilities	-	355	-	-	355
Derivative financial instruments	-	505	-	-	505
Total	-	85,342	39,317	2	124,661

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

Year ended 31/12/2016	On demand	< 3 months	3 - 12	1 - 5	Total
	EUR'000	EUR'000	months	years	
			EUR'000	EUR'000	EUR'000
Non-current borrowings	-	-	-	18	18
Bonds	-	-	-	9,280	9,280
Current borrowings	-	7,086	62,020	268	69,374
Trade and other payables	-	72,064	-	-	72,064
Other liabilities	-	234	-	-	234
Derivative financial instruments	-	1,023	-	-	1,023
Total	-	80,407	62,020	9,566	151,993

Notes to the financial statements (cont'd)

38. Financial risk management (cont'd)

The table below summarizes the changes in the Company's financial liabilities in 2017:

2017	Balance as at 1 January 2017 EUR'000	Loan repaid EUR'000	Reclassified EUR'000	Currency rate fluctuations EUR'000	Change in fair value EUR'000	Loans received EUR'000	Other changes EUR'000	Balance as at 31 December 2017 EUR'000
Long-term debt securities	8,000	-	(8,000)	-	-	-	-	-
Lease liabilities, non-current portion	18	(16)	-	-	-	-	-	2
Current loans from credit institutions	60,500	(31,162)	-	(6,677)	-	-	-	22,661
Short-term debt securities	-	-	8,000	-	-	-	-	8,000
Lease liabilities, current portion	33	(17)	-	-	-	-	-	16
Current loans from credit institutions	7,261	(261)	-	-	-	2,500	-	9,500
Undrawn dividends for the previous years	-	-	-	-	-	-	1,836	1,836
Derivatives	1,023	(1,023)	-	-	-	505	-	505
Total	76,835	(32,479)	-	(6,677)	-	3,005	1,836	42,520

Notes to the financial statements (cont'd)

38. Financial risk management (cont'd)

Legal risk

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

Capital management

The primary objective of the Company'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 Company 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	31.12.2016
	EUR'000	EUR'000
Company financials		
Share capital	9,785	9,785
Total equity:	56,316	56,244
Total equity/ Share capital	576%	575%

39. Subsequent events

On 12 April 2018, OP Corporate Bank plz Latvian branch have decided to extend contract for AS ELKO Grupa overdraft agreement for 12 months from the moment of signing the contract amendments.

On 13 April 2018, AS Swedbank branch have decided to extend contract for AS ELKO Grupa overdraft agreement till 5 July 2019.

On 13 April 2018, AS SEB banka have decided to extend contract for AS ELKO Grupa overdraft agreement till 31 July 2019.

On 13 April 2018, AS Luminor Bank banka have decided to extend contract for AS ELKO Grupa overdraft agreement till 31 July 2019.

Except as disclosed in these financial statements, as of the last day of the reporting period there have been no other events which could produce a material impact in the Company's financial position as at 31 December 2017.

Egons Mednis
Chairman of the Board,
President

Kristīne Paule
Chief accountant

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Elko Grupa AS

Opinion

We have audited the accompanying financial statements of Elko Grupa AS (the Company) set out on pages 7 to 52 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company 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.

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 financial statements* section of our report. We are independent of the Company 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 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 the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's 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 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 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 financial statements.

Key audit matter	How we addressed the key audit matter
<p>Volatility of Russian rubles and Ukrainian hryvnia exchange rate As disclosed in Note 32 <i>Related party disclosures</i> sales to CIS countries (included under ELKO Trading Switzerland AG and Elko Mobile Ltd) amounts to 275 039 thousand EUR for the period ending 31 December 2017</p> <p>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.</p>	<p>We performed the following procedures, among others:</p> <ul style="list-style-type: none"> ➤ We obtained an assessment on geopolitical and currency risks prepared by the Company's management. ➤ We reviewed the Company'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.

Sales to the intermediaries by the Company are in USD or in local currencies (Russian rubbles and Ukrainian hryvnia). The final customers pay to the Company 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 Company 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 Company's business volumes, debtors recoverability and losses from the changes in foreign currency exchange rates.

Transactions with related parties

Significant part of the Company's revenue relate to transactions with related parties as disclosed in Note 32 *Related party transactions*. Most of the transactions are with Elko Trading Switzerland (62% of the total Company's revenue) and other related parties (7% of the total Company's revenue).

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

Transactions with 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 with related parties.

- 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 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 14 *Trade receivables* and foreign exchange related disclosures in Note 34 *Geopolitical risk*.

We performed following the procedures, among others:

- We performed the sales process walkthrough with related parties
- We tested controls over sales process to related parties
- We tested the relevant IT system controls over the revenue recording and correct margin application to related party transactions
- We obtained the transfer pricing documentation prepared by the Company. We involved tax specialists to assist us in review of the key assumptions made by the Group's management.
- We assessed the application of the Company'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.

We also evaluated the adequacy of the Company's disclosures in Note 32 *Related party disclosures*.

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 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*,

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Company 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 and the Statement of Corporate Governance. 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 financial statements are prepared is consistent with the 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 56², paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56² paragraph three of the Financial Instruments Market Law.

Responsibilities of management and those charged with governance for the 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 financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.

Ernst & Young Baltic SIA
Licence No. 17



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

Riga, 20 April 2018