



Joint stock company ELKO Grupa

Unified registration number: 40003129564

Annual report
for the year ended 31 December 2016
(24th financial year)

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2017

The annual report was reviewed and approved by the general shareholders' meeting
on ____ 2017.

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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 Inventions Limited (1,928,536 shares), United Kingdom Amber Trust II S.C.A. (1,728,644 shares), Luxembourg Eurotrail SIA (753,833 shares), Latvia Whitebarn SIA (1,072,608 shares), Latvia KRM Serviss SIA (1,049,110 shares), Latvia Solo Investīcijas IT SIA (997,844 shares), Latvia * 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 Viškins – 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 (from 17 February 2016) Aleksandrs Orlovs - Board Member with representation powers jointly with another Board Member, Business Development Director (from 17 February 2016) Māris Būmanis – Board Member with representation powers jointly with another Board Member till 12 April 2017, Chief Financial Officer till 12 April 2017 Mārtiņš Ozoliņš - Board Member with representation powers jointly with another Board Member, Distribution Director (from 17 February 2016)
Proctor	Uldis Menģelis – Proctor with representation powers jointly with a Board Member, Principal Lawyer (from 5 January 2017)
Responsible for accounting	Kristīne Paule, Chief Accountant
Reporting year	1 January – 31 December, 2016
Auditors	Ernst & Young Baltic SIA Commercial Company License No 17 Muitas iela 1A Riga, LV-1010 Latvia Diāna Krišjāne Latvian Certified Auditor Certificate No 124

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 2016 was EUR 404 million, up by 10% from the year 2015, 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 8.4 million in 2016. Compared to the year 2015, net profit fell by EUR 0.2 million, which is chiefly due to the increased loan interest payments to the credit institutions and interest on bonds issued.

Significant events during the reporting period

In 2016, the Company entered into significant cooperation agreements with the following manufacturers: *Archos, CAT, Hiper, Mikrotik, Bosch, etc.*

In 2016, the Company's bonds amounting to EUR 8 million were listed on Nasdaq Riga Stock Exchange.

The financial performance of AS ELKO Grupa and its subsidiaries for the year 2016 was affected by the weak economy of Russia and Ukraine. Owing to sound market diversification, the Company was able to rapidly shift its sales focus to European markets. The utilization of financial instruments to minimize currency fluctuations produced a positive impact on the Company's financial result.

Future prospects

The performance of AS ELKO Grupa is and will be influenced by the macroeconomic, political and overall competitive situation and the development of markets 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 2017, the Company's sales are expected to remain at the level of 2016.

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 Ukraine LLC. The subsidiary Elko Marketing Ltd. owns 100% shares in Alma LLC. 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 2016.

Profit distribution suggested by the Board

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

Egons Mednis

Chairman of the Board,
President

Riga, 28 April 2017

The annual report was approved by the general shareholders' meeting on 25 April 2017.

Chairman of the general shareholders' meeting _____
Andris Putāns

Statement of comprehensive income

	Notes	2016 EUR	2015 EUR
Net turnover	1	381,963,013	368,006,295
Cost of sales	2	<u>(357,343,366)</u>	<u>(368,729,051)</u>
Gross profit/(loss)		24,619,647	(722,756)
Selling and distribution costs	3	(1,899,427)	(1,722,905)
Administrative expense	4	(9,526,577)	(8,562,024)
Other operating income	5	2,382,640	13,764,257
Other operating expense	6	(13,223,629)	(364,500)
Operating profit		2,352,654	2,392,072
Finance income	7, 21	11,144,799	10,900,935
Finance cost	8, 21	<u>(4,796,127)</u>	<u>(4,137,202)</u>
Profit before tax		8,701,326	9,155,805
Corporate income tax	9	(337,022)	(459,120)
Deferred tax	9, 25	<u>-</u>	<u>-</u>
Net profit for the year		8,364,304	8,696,685
Other comprehensive income			
Total comprehensive income		8,364,304	8,696,685
Earnings per ordinary share (EUR per share)	20	0.85	0.89

The accompanying notes on pages 11 to 50 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Kristine Paule

Chief accountant

28 April 2017

Statement of financial position

(1)

	Notes	31/12/2016 EUR	31/12/2015 EUR	01/01/2015 EUR
ASSETS				
Non-current assets				
<i>Intangible assets:</i>				
Concessions, patents, licenses, trademarks and similar rights		17,485	23,646	26,606
Goodwill		300,000	300,000	-
<i>Total intangible assets:</i>	10	317,485	323,646	26,606
<i>Property, plant and equipment:</i>				
Leasehold improvements		54,527	4,845	6,771
Equipment and machinery		75,359	123,275	118,776
Communications and IT equipment		437,877	297,017	152,117
Other fixtures and fittings, tools and equipment		16,334	18,859	31,593
Prepayments for property, plant and equipment		-	-	19,726
<i>Total property, plant and equipment:</i>	11	584,097	443,996	328,983
<i>Non-current financial assets:</i>				
Investment in related companies	12	5,022,928	3,834,000	2,929,562
Non-current loans to related companies	32	3,426,000	3,426,000	-
<i>Total non-current financial assets:</i>		8,448,928	7,260,000	2,929,562
Total non-current assets:		9,350,510	8,027,642	3,285,151
Current assets				
<i>Inventories :</i>				
Finished goods and goods for sale	13	27,745,025	23,638,030	33,368,541
Prepayments for goods		90,977	171,603	260,498
<i>Total inventories:</i>		27,836,002	23,809,633	33,629,039
<i>Receivables and other current assets:</i>				
Trade receivables	14	29,240,409	11,116,114	8,037,433
Receivables from related companies	32	37,903,409	5,182,037	66,580,671
Other receivables	15	7,923,206	5,130,045	1,542,837
Accrued income		236,743	63,665	7,254
<i>Total receivables:</i>		75,303,767	21,491,861	76,168,195
<i>Prepaid expenses and prepayments</i>	16	377,679	472,415	204,315
<i>Current financial assets:</i>				
Current loans to related companies	32	88,000,826	108,706,557	62,529,668
Short-term deposits	17	948,677	-	391,236
Derivative financial instruments	18	3,408	2,448,709	304,945
<i>Total current financial assets:</i>		88,952,911	111,155,266	63,225,849
<i>Cash and short-term deposits:</i>	19	4,496,678	1,852,494	5,698,298
Total current assets:		196,967,037	158,781,669	178,925,696
TOTAL ASSETS		206,317,547	166,809,311	182,210,847

Statement of financial position

(2)

	Notes	31/12/2016 EUR	31/12/2015 EUR	01/01/2015 EUR
EQUITY AND LIABILITIES				
Equity:				
Share capital	20	9,784,790	9,784,790	9,784,791
Share premium		4,973,947	4,973,947	4,973,947
Retained earnings				
a) brought forward		33,121,360	29,924,675	25,477,392
b) for the year		8,364,304	8,696,685	4,447,282
Total equity:		56,244,401	53,380,097	44,683,412
Liabilities:				
Non-current liabilities:				
Debt securities	21	8,000,000	8,000,000	-
Other borrowings	22	18,090	44,677	58,170
Total non-current liabilities:		8,018,090	8,044,677	58,170
Current liabilities:				
Loans from credit institutions	23	60,500,021	60,322,020	54,729,279
Other borrowings	22	33,047	48,244	48,004
Loans from related companies	32	7,260,658	260,658	260,658
Prepayments received from customers		194,338	328,501	627,085
Trade payables		71,539,330	37,616,609	77,251,222
Payables to related companies	32	331,067	5,553,987	1,540,874
Taxes payable	26	-	9,722	580,748
Other liabilities	24	233,560	240,331	232,997
Accrued liabilities	27	940,203	1,004,465	1,116,997
Undrawn dividends of previous years		-	-	398,932
Derivative financial instruments	18	1,022,832	-	682,469
Total current liabilities:		142,055,056	105,384,537	137,469,265
Total liabilities:		150,073,146	113,429,214	137,527,435
TOTAL EQUITY AND LIABILITIES		206,317,547	166,809,311	182,210,847

The accompanying notes on pages 11 to 50 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Kristīne Paule

Chief accountant

28 April 2017

Statement of changes in equity

	Share capital	Share premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
Balance as at 1 January 2015	9,784,791	4,973,947	29,924,674	44,683,412
Other comprehensive income	-	-	8,696,685	8,696,685
Profit for the year	-	-	8,696,685	8,696,685
Total comprehensive income for 2015	-	-	8,696,685	8,696,685
Dividends paid	-	-	-	-
Share capital denomination *	(1)	-	1	-
Balance as at 31 December 2015	9,784,790	4,973,947	38,621,360	53,380,097
Balance as at 1 January 2016	9,784,790	4,973,947	38,621,360	53,380,097
Other comprehensive income	-	-	8,364,304	8,364,304
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

The accompanying notes on pages 11 to 50 form an integral part of these financial statements.

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

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

Egons Mednis
Chairman of the Board,
President

Kristīne Paule
Chief accountant

28 April 2017

Statement of cash flows

	Notes	2016 EUR	2015 EUR
Cash flows to/ from operating activities			
Profit before tax		8,701,326	9,155,805
Adjustments for:			
Amortization and depreciation	10, 11	374,937	252,133
Changes in provisions and allowances		14,714	265,218
(Profit) or loss from fluctuations of currency exchange rates		5,655,996	4,877,500
Income from dividends	7	(6,329,889)	(6,333,719)
Penalties expense		496	22,691
Interest income and other penalties income	7	(4,814,910)	(4,437,754)
Interest expense	8	4,796,127	4,134,183
(Gain)/ loss on financial instruments (net)		3,468,133	(2,826,233)
(Gain)/ loss on disposal of property, plant and equipment		(22,722)	421
		11,844,208	5,110,245
Changes in working capital			
Decrease/ (increase) in trade receivables		(54,962,889)	47,767,903
(Increase)/ decrease in inventories		(4,026,369)	9,819,406
Increase/ (decrease) in trade and other payables		41,707,534	(37,120,245)
Gross operating cash flows		(5,437,516)	25,577,309
Interest received		93,599	248,070
Interest paid		(496)	(22,691)
Corporate income tax paid		(305,339)	(611,372)
Net cash flows to/ from operating activities		(5,649,752)	25,191,316
Cash flows to/ from investing activities			
Acquisition of shares in related companies	12	(1,188,928)	(904,438)
Acquisition of a Business		-	(300,000)
Purchase of property, plant and equipment and intangible assets		(511,395)	(378,085)
Proceeds from sale of property, plant and equipment		25,240	13,478
Loans (issued)		(2,747,758)	(51,797,479)
Loans repaid		26,150,060	10,569,857
Deposits made		(890,950)	449,640
Interest received		5,055,039	4,241,678
Dividends received		6,329,889	6,333,719
Net cash flows to/ from investing activities		32,221,197	(31,771,630)
Cash flows to/ from financing activities			
Proceeds from borrowings		8,017,064	22,326,351
Repayment of borrowings		(21,596,065)	(22,994,921)
Issued debt securities (bonds)		-	8,000,000
Repayment of borrowings (finance leases)	22	(52,744)	(66,253)
Interest paid (bonds)		(714,586)	(144,371)
Interest paid		(4,080,930)	(3,987,364)
Dividends paid		(5,500,000)	(398,932)
Net cash flows to/ from financing activities		(23,927,261)	2,734,510
Net increase/ (decrease) in cash and cash equivalents		2,644,184	(3,845,804)
Cash and cash equivalents at the beginning of the year		1,852,494	5,698,298
Cash and cash equivalents at the end of the year		4,496,678	1,852,494

The accompanying notes on pages 11 to 50 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Kristīne Paule

Chief accountant

28 April 2017

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 2016 were approved by a resolution of the Company's Board on 25 April 2017.

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

The financial statements of the Company are the first financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). The Company prepared the financial statements in accordance with the Law of the Republic of Latvia, the year 2015 including. In 2016, the joint stock company ELKO Grupa applied IFRS for the first time as described in the section "Transition to IFRS".

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 monetary unit used in the financial statements is the euro (EUR), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2016 through 31 December 2016.

These are separate financial statements of the Company. Consolidated financial statements are prepared separately. Consolidated statements will be issued on 28 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.

Transition to IFRS

The Company prepared these financial statements for the year ended 31 December 2016 for the first time applying IFRS.

The financial statements for the period ended 31 December 2015 were prepared in accordance with the generally accepted accounting principles in Latvia (Latvian GAAP).

Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2015, the Company's date of transition to IFRS. Since Latvian GAAP agrees to IFRS to material extent, management did not identify any adjustments that would be required to be made by the Company in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2015 and the financial statements for the year ended 31 December 2015. Accordingly, there were no changes in the statement of changes in equity according to IFRS in comparison with the previously applied generally accepted accounting principles, as disclosed in the table below.

	Equity under Latvian GAAP	Changes in equity resulting from IFRS adoption	Equity under IFRS as endorsed by the EU
	EUR	EUR	EUR
31.12.2016	56,244,401	-	56,244,401
31.12.2015	53,380,097	-	53,380,097
31.12.2014	44,683,412	-	44,683,412

2.2. Foreign currency translation

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 comprehensive income for the respective period.

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
1 EUR	1.00000	1.00000	1.00000
1 USD	1.05410	1.08870	1.21410
1 CHF	1.07390	1.08350	1.20240
1 RUB	64.30000	80,67360	72.3370
1 RON	4.43900	4.52400	4.48280
1000 KZT	351.9550	370.07530	220.84000

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 caption of the statement of comprehensive income "Finance income".

Dividends

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

Other income

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

2.4. Taxes

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.

Deferred corporate income tax

Deferred corporate income tax arising from temporary differences between the tax base of assets or liabilities and their carrying amount in these financial statements is calculated using the liability method. Deferred tax is calculated on the basis of currently enacted tax rates that are expected to apply to the period when the deferred tax asset is 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.

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.

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".

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

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.

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.

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

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 profit or loss "Other interest and similar 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.

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, and 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.

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

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

Fair value of financial instruments (cont'd)

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2.6. Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.7. Intangible assets and property, plant and equipment

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

Amortization/ 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 amortization/ depreciation rates fixed by the management:

	% per annum
Licenses	20
Vehicles	25
Communication devices	50
Computer 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.

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.

2.7 Intangible assets and property, plant and equipment (cont'd)

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. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. In 2016 and 2015 the 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 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.

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 profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where 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. The credit notes for price protection are booked as decrease of the cost value of the inventory. The credit notes for rebates are recognized directly in the statement of profit or loss as decrease of cost of sales. The credit notes for marketing and other product promotion are recognized as other revenue. Some of these programs may extend over one or more reporting periods. Rebates or other vendor incentives are recognized as earned based on sales of respective products or as services are provided in accordance with the terms of the related program.

2.20. 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. 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* (effective for financial years beginning on or after 01.01.2018)

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

Based on preliminary 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. More detailed assessment will be made in 2017.

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

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company plans to adopt the standard for the financial year beginning as of 1 January 2018 retrospectively, i.e. the comparable period will be presented in accordance with IFRS 15

Currently, it is expected that changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition, will be minimal. Based on the preliminary analyses performed, the Company does not expect significant 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. Detailed analysis on implementation of the standard will be made in 2017.

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

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

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

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

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Company will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and is currently assessing the impacts of its adoption on the financial statements.

Detailed analysis on implementation of IFRS 16 and its clarifications will be made in 2017.

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

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

3. Standards issued but not yet effective (cont')

The implementation of these amendments will not have any impact on the financial position or performance of the Company but may result in changes in disclosures.

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

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

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

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

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

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

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

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

3.1. Improvements to IFRSs

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

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

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

The 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. 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 2016 amounted to EUR 7,447 thousand (2015: EUR 6,467 thousand) based on the individual vendor agreements. Vendor programs are recognized in trade payables.

4.2. Income taxes

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

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 9 and 25).

4.3. 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 2016 no impairment on inventory was recognized.

4.4. Impairment of receivables

Significant judgment is applied, when estimating the provisions for impairment of trade receivables (Note 6). The Company evaluates the receivables according to IAS 39 evaluating each significant receivable individually. Remaining receivables are pooled and the provisions for impairment are applied based on the overdue days.

4.5. 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 are incurred along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The amount of provision with respect to warranties is disclosed in Note 3, 29, 31.

Notes (cont'd)

1. Net turnover

	2016	2015
	EUR	EUR
Wholesale of computer components	415,935,730	433,488,815
Other sales income	474,108	212,162
Discounts granted	(34,446,825)	(65,694,682)
	<u>381,963,013</u>	<u>368,006,295</u>

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

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

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

	The Baltic	Central and Eastern Europe and Other countries	CIS	Total
	EUR	EUR	EUR	EUR
Wholesale of computer components	81,887,460	327,615,123	6,433,147	415,935,730
Other sales income	4,751	467,103	2,255	474,109
Discounts granted	(1,008,206)	(33,396,117)	(42,502)	(34,446,825)
Net turnover	80,884,005	294,686,109	6,392,900	381,963,014

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

	The Baltic	Central and Eastern Europe and Other countries	CIS	Total
	EUR	EUR	EUR	EUR
Wholesale of computer components	85,343,229	341,440,951	6,704,635	433,488,815
Other sales income	2,126	209,027	1,009	212,162
Discounts granted	(1,922,783)	(63,690,842)	(81,057)	(65,694,682)
Net turnover	83,422,572	277,959,136	6,624,587	368,006,295

Notes (cont'd)

2. Cost of sales

	2016	2015
	EUR	EUR
Acquisition cost of goods sold	411,693,773	426,002,042
Delivery of purchased goods	1,299,805	843,232
Non-refundable taxes paid on the acquisition of goods	148,686	196,959
Discounts received	(55,798,898)	(58,313,182)
	<u>357,343,366</u>	<u>368,729,051</u>

3. Selling and distribution costs

	2016	2015
	EUR	EUR
Delivery of sold goods	493,912	539,308
Warehouse expenses	337,377	341,393
Distribution of goods	842,748	640,632
Advertising	207,985	169,189
Loss on warranty replacement	34,923	11,514
Provisions for RMA liabilities (see also Note 29, 31)	(22,533)	12,898
Other selling and distribution costs	5,015	7,971
	<u>1,899,427</u>	<u>1,722,905</u>

4. Administrative expense

	2016	2015
	EUR	EUR
Wages and salaries	5,038,094	4,582,238
Office maintenance	1,151,145	1,145,396
Statutory social insurance contributions	1,182,236	1,060,567
Professional fees*	317,726	277,752
Depreciation and amortization	374,936	252,133
Recruitment and training expenses	75,625	59,890
Bank charges	304,750	217,752
Transport expenses	110,367	107,860
Business trips	185,261	150,904
Communications expenses	175,900	148,497
Computer maintenance expenses	98,932	92,925
Write-offs of doubtful and bad receivables	66,755	87,306
Receivables insurance	204,772	178,099
Other administrative expenses	153,069	107,533
Other staff costs	87,009	93,172
	<u>9,526,577</u>	<u>8,562,024</u>

* Including fees paid for services and annual audit to the audit firm: EUR 143,700 in 2016 (2015: EUR 83,900).

Notes (cont'd)

5. Other operating income

	2016 EUR	2015 EUR
Income from services provided (marketing)	2,337,167	2,789,394
Gain on disposal of property, plant and equipment	22,722	13,189
Other income	22,751	13,786
Currency exchange gain	-	10,947,888
	<u>2,382,640</u>	<u>13,764,257</u>

6. Other operating expense

	2016 EUR	2015 EUR
Advertising contracts with subsidiaries	178,138	221,745
Donations	-	4,700
Penalties	496	22,691
Other expenses	27,333	115,364
Currency exchange loss	13,017,662	-
	<u>13,223,629</u>	<u>364,500</u>

7. Finance income

	2016 EUR	2015 EUR
Interest income from current intra-group loans	4,715,051	4,187,236
Currency exchange gain, net	2,241	91,383
Dividends from the subsidiary ELKO Mobile Ltd.	5,733,029	3,304,186
Dividends from the subsidiary WESTech Spol s.r.o.	596,860	209,100
Dividends from the subsidiary ELKO Latvija SIA	-	3,638
Dividends from the subsidiary ELKO Marketing Ltd.	-	2,816,795
Late payment interest	93,599	248,070
Interest accrued on bank account balances	611	2,447
Gain on changes in the fair value of current financial instruments, net (see also Note 18)	3,408	38,080
	<u>11,144,799</u>	<u>10,900,935</u>

Notes (cont'd)

8. Finance cost

	2016	2015
	EUR	EUR
Interest on loans from credit institutions	3,950,797	3,909,404
Interest on loans from related companies	127,459	78,006
Interest on finance leases	1,856	2,402
Loss on changes in the fair value of current financial instruments, net (see also Note 18)	1,429	-
Interest on debt securities	714,586	144,371
Impairment of investments in subsidiaries	-	3,019
	<u>4,796,127</u>	<u>4,137,202</u>

9. Current and deferred corporate income tax

	2016	2015
	EUR	EUR
Deferred tax (see also Note 25)	-	-
Current corporate income tax charge	337,022	459,120
	<u>337,022</u>	<u>459,120</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:

	2016	2015
	EUR	EUR
Profit/ (loss) before tax	<u>8,701,326</u>	<u>9,155,805</u>
Tax at the applicable tax rate of 15%	1,305,199	1,373,371
Non-deductible items	9,786	39,603
Non-taxable income	(982,683)	(952,143)
Tax rebate on donations	-	(3,995)
Other	<u>4,720</u>	<u>2,284</u>
Tax expense	<u>337,022</u>	<u>459,120</u>

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

Notes (cont'd)

10. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Goodwill *	Total
Acquisition value			
As at 01/01/2015	309,870	-	309,870
Additions	5,535	300,000	305,535
As at 31/12/2015	315,405	300,000	615,405
Amortization			
As at 01/01/2015	283,264	-	283,264
Charge for the year 2015	8,495	-	8,495
As at 31/12/2015	291,759	-	291,759
Net carrying amount as at 31/12/2015	23,646	300,000	323,646
Acquisition value			
As at 01/01/2016	315,405	300,000	615,405
Additions	2,283	-	2,283
As at 31/12/2016	317,688	300,000	617,688
Amortization			
As at 01/01/2016	291,759	-	291,759
Charge for the year 2016	8,444	-	8,444
As at 31/12/2016	300,203	-	300,203
Net carrying amount as at 31/12/2016	17,485	300,000	317,485
Net carrying amount as at 31/12/2015	23,646	300,000	323,646
Net carrying amount as at 01/01/2015	26,606	-	26,606

* On 2 June 2015, AS ELKO Grupa signed an agreement with DL Distributors OU on the acquisition of DELL business in Estonia for the amount of EUR 300,000. With the acquisition of "DL Distributors" OU business, ELKO Group expand its product portfolio in the Baltics and was granted with DELL distribution rights also in Latvia and Lithuania. Goodwill is the purchase price paid for distribution rights. Goodwill is reviewed annually by reviewing DELL product turnover, gross margin and operating profit margin for DELL products.

The cost of fully amortized intangible assets at 31 December 2016 was EUR 290 thousand (31 December 2015: EUR 270 thousand; 31 December 2014: EUR 262 thousand).

Notes (cont'd)

11. Property, plant and equipment

	Leasehold improve- ments	Equipment and machinery	Other fixtures and fittings, tools and equipment	Communi- cations and IT equipment	Pre- payments	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Net carrying amount as at 01/01/2015	6,771	118,776	31,593	152,117	19,726	328,983
Acquisition value						
As at 01/01/2015	9,631	296,542	248,735	1,109,879	19,726	1,684,513
Additions	-	76,216	1,611	294,723	-	372,550
Sold	-	(3,702)	-	(1,557)	-	(5,259)
Reclassified	-	-	-	19,726	(19,726)	-
Disposed of	-	-	(3,171)	(13,813)	-	(16,984)
Written off	-	(25,309)	(49)	(300)	-	(25,658)
As at 31/12/2015	9,631	343,747	247,126	1,408,658	-	2,009,162
Depreciation						
As at 01/01/2015	2,860	177,766	217,142	957,762	-	1,355,530
Charge for the year 2015	1,926	58,395	14,301	169,016	-	243,638
Sold	-	(925)	-	(1,136)	-	(2,061)
Disposed of	-	-	(3,171)	(13,813)	-	(16,984)
Written off	-	(14,764)	(5)	(188)	-	(14,957)
As at 31/12/2015	4,786	220,472	228,267	1,111,641	-	1,565,166
Net carrying amount as at 31/12/2015	4,845	123,275	18,859	297,017	-	443,996

Notes (cont'd)

11. Property, plant and equipment (cont'd)

	Leasehold improve- ments	Equipment and machinery	Other fixtures and fittings, tools and equipment	Commu- nications and IT equipment	Pre- payments	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Acquisition value						
As at 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 of	-	-	(19,281)	(260,223)	-	(279,504)
Written off	-	-	-	(4,985)	-	(4,985)
As at 31/12/2016	69,084	257,605	233,700	1,570,726	-	2,131,115
Depreciation						
As at 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 of	-	-	(19,281)	(260,223)	-	(279,504)
Written off	-	-	-	(3,529)	-	(3,529)
As at 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
Net carrying amount as at 31/12/2015	4,845	123,275	18,859	297,017	-	443,996

The net carrying amount of assets held under finance lease terms as at 31 December 2016 was as follows: vehicles of EUR 51,453 (31.12.2015: vehicles of EUR 85,558; 01.01.2015: vehicles of EUR 5,694). Title to assets held under finance lease terms will be transferred to the Company only after all the lease commitments are settled (see also Note 22).

The cost of fully depreciated property, plant and equipment at 31 December 2016 was EUR 1,156 thousand (31 December 2015: EUR 1,269 thousand; 1 January 2015: EUR 1,304 thousand).

Notes (cont'd)

12. Investments in related companies

Information about investments in subsidiaries

Company	Carrying amount of equity interest in subsidiaries			Equity interest in subsidiaries		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR	%	%	%
ELKO Trading Switzerland AG	60,757	60,757	60,757	100	100	100
ELKO Marketing Ltd	2,436	2,436	2,436	100	100	100
ELKO Eesti OU	100,164	100,164	100,164	100	100	100
ELKO Lietuva UAB	161,241	161,241	161,241	100	100	100
ELKO Kazakhstan LLP	49,231	49,231	49,231	100	100	100
ELKOTech Romania SRL **	3,759,099	2,570,171	1,659,887	100	100	100
ELKO Ukraine LLC	24	24	24	100	100	100
ELKOTEX d.o.o.	80,933	80,933	80,933	51	51	51
WESTech Spol s.r.o.	9,361	9,361	9,361	51	51	51
ELKO Mobile Ltd	799,682	799,682	799,682	51	51	51
Liquidated PRUVIA SIA ***	-	-	3,000	-	-	100
Liquidated ELKO Latvija SIA *	-	-	2,846	-	-	100
	<u>5,022,928</u>	<u>3,834,000</u>	<u>2,929,562</u>			

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

** On 29 August 2016, AS ELKO Grupa decided to increase the share capital of its subsidiary ELKOTech Romania SRL to RON 16,000,000 (2015: RON 10,700,000). The registered and paid-up share capital of ELKOTech Romania SRL is RON 16,000,000.

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

Information about subsidiaries

Company	Address	Equity		
		31/12/2016 EUR	31/12/2015 EUR	01/01/2015 EUR
ELKO Trading Switzerland AG	Switzerland, 6304 Zug, Baarerstrasse 43	8,154,959	1,900,837	(1,816,915)
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	14,257,465	13,793,309	14,834,836
ELKO Eesti OU	Estonia, Tallinn, Tammsaare tee 47	27,858	27,858	27,858
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	417,333	396,258	351,784
ELKO Kazakhstan LLP	Dzhambula 118, 1, Almaty, Kazakhstan 050026	(139,835)	(184,448)	(137,962)
ELKOTech Romania SRL	Romania, Bucharest, Copilului 6-12	3,524,078	2,218,623	1,633,894
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	(7,865,706)	(3,334,192)	50,437
ELKOTEX d.o.o.	Slovenia, Ljubljana, Stegne 027	1,705,065	1,568,645	755,630
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	13,161,196	9,701,940	3,645,743
Elko Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	(2,929,821)	14,033,428	2,935,012
Liquidated ELKO Latvija SIA	Latvia, Riga, Toma 4	-	-	4,032
Liquidated PRUVIA SIA	Latvija, Riga, Toma 4	-	-	(3,228)

Notes (cont'd)

12. Investments in related companies (cont'd)

Profit/ (loss) for the year

Company	Address	2016 EUR	2015 EUR
ELKO Trading Switzerland AG	Switzerland, 6304 Zug, Baarerstrasse 43	4,090,275	17,317,879
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	11,143	59,307
ELKO Eesti OU	Estonia, Tallinn, Tammsaare tee 47	-	-
ELKO Lietuva UAB	Lithuania, Kaunas, Algirdo g. 32A	30,003	44,170
ELKO Kazakhstan LLP	Dzhambula 118, 1, Almaty, Kazakhstan 050026	50,755	(153,531)
ELKOTech Romania SRL	Romania, Bucharest, Copilului 6-12	146,692	(294,048)
ELKO Ukraine LLC	Kozatska Street, building 120/4, letter E, 03680, Kiev, Ukraine	(4,813,057)	(3,647,967)
ELKOTEX d.o.o.	Slovenia, Ljubljana, Stegne 027	136,419	86,839
WESTech Spol s.r.o.	Slovakia, Bratislava, Stara Vajnorska 17	4,629,570	2,963,425
Elko Mobile Ltd	Nafpliou 15, 2nd floor, 3025, Limassol, Cyprus	(5,502,596)	7,132,814
Liquidated ELKO Latvija SIA	Latvia, Riga, Toma 4	-	-
Liquidated PRUVIA SIA	Latvija, Riga, Toma 4	-	(3,228)

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.

13. Finished goods and goods for sale

	31/12/2016 EUR	31/12/2015 EUR	01/01/2015 EUR
Goods at warehouses	16,012,680	13,252,548	13,355,724
Goods in transit	11,732,345	10,385,482	20,012,817
	<u>27,745,025</u>	<u>23,638,030</u>	<u>33,368,541</u>

All inventories of AS ELKO Grupa, except for goods of EUR 16,012,680 to which legal title have not yet passed from vendors to the Company, and goods in transit have been pledged for the benefit of lenders.

Notes (cont'd)

14. Trade receivables

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Trade receivables, gross	29,391,942	11,253,558	8,140,707
Allowances for bad and doubtful trade receivables	(151,533)	(137,444)	(103,274)
	<u>29,240,409</u>	<u>11,116,114</u>	<u>8,037,433</u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

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

	Total	Past due but not impaired, days				
		Neither past due nor impaired	<45	46-90	91-180	>180
Balance as at 1 January 2015	8,037,433	7,848,153	52,848	33,158	26,823	76,451
Balance as at 31 December 2015	11,116,114	10,859,720	73,092	45,858	50,861	86,583
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 1 January 2015	103,274	-	103,274
Charge for the year	87,306	-	87,306
Utilized	(53,136)	-	(53,136)
Balance as at 31 December 2015	137,444	-	137,444
Charge for the year	66,755	-	66,755
Utilized	(52,666)	-	(52,666)
Balance as at 31 December 2016	151,533	-	151,533

Notes (cont'd)

15. Other receivables

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
VAT overpaid in the Netherlands (see also Note 26)	1,853,691	2,635,587	1,056,786
VAT overpaid in the Latvia (see also Note 26)	160,039	-	-
Deposits made to suppliers	5,229,390	2,112,611	247,097
Overpayment of corporate income tax (see also Note 26)	127,482	159,165	6,913
Overpayment of personal income tax (see also Note 26)	839	-	-
Other receivables	551,765	222,682	232,041
	<u>7,923,206</u>	<u>5,130,045</u>	<u>1,542,837</u>

16. Prepaid expense and prepayments

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Lease of premises	87,750	87,750	87,750
Insurance	7,982	7,322	5,463
Commission fee for the bond issue*	95,556	148,889	-
Prepayments	3,775	19,009	10,655
Other expenses	182,616	209,445	100,447
	<u>377,679</u>	<u>472,415</u>	<u>204,315</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 21).

17. Short-term deposits

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Short term deposits	948,677	-	391,236
	<u>948,677</u>	<u>-</u>	<u>391,236</u>

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

On 8 September 2016, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the subsidiary Elko Ukraine LLC towards JSC Uksibbank amounting to USD 1,000,000. The guarantee will be effective until 7 October 2017. Upon the signature of the agreement, AS ELKO Grupa placed a security deposit of USD 500,000 for the above mentioned bank guarantee.

On 6 October 2016, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank amounting to USD 1,000,000. The guarantee will be effective until 5 November 2017. Upon the signature of the agreement, AS ELKO Grupa placed a security deposit of USD 500,000 for the above mentioned bank guarantee.

Notes (cont'd)

18. Derivative financial instruments

18.1 Financial assets

	2016 EUR	2015 EUR
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedges	3,408	2,448,709
- Foreign exchange forward contracts		
Total instruments at fair value through profit or loss	3,408	2,448,709
	31/12/2016	31/12/2015
Total financial assets	3,408	2,448,709

On December 31, 2016 was entered into foreign exchange forward contracts for the sale of RUB against USD 1,777 billion RUB amount (RUB 3,288 million in 2015) with an average term of 23 days and the sale of RON against USD 17.0 million RON amount (in 2015 RON 3.6 million) with a maturity of 30 March 2017. Foreign exchange forward contracts are valued at the fair value which is calculated at market rates. See also Note 33.

2016 derivatives were used as risk management tools to mitigate the impact of currency fluctuations on sales prices and the open currency positions.

18.2 Financial liabilities

	2016 EUR	2015 EUR
Financial instruments at fair value through profit or loss		
- Foreign exchange forward contracts	(1,022,832)	-
Total instruments at fair value through profit or loss	-	-
	31/12/2016	31/12/2015
	EUR	EUR
Total financial liabilities	1,022,832	-

As at 31 December 2016, the Company had currency forward contracts on the sale of RUB against USD for the amount of RUB 1,777 billion (31/12/2015: RUB 3,288 billion; 01/01/501.01.2015: RUB 1,058 billion) with an average term of 23 days and the sale of RON against USD for the amount of RON 17 million (31.12.2015: RON 3.6 million; 01.01.2015: RON 3.6 million) with the maturity date set on 30 March 2017. As at 31 December 2016, the fair value of these contracts was EUR 1,019,424 (31.12.2015: EUR 2,448,709; 01.01/012015.2015: EUR 377,524). The fair value of the currency forward contracts is calculated at market rates.

In 2016, derivatives were used as risk management tools to mitigate the impact of currency fluctuations on selling prices and relevant open currency positions.

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

Notes (cont'd)

18. Derivative financial instruments (cont'd)

	31/12/2016		31/12/2015		01/01/2015	
	EUR		EUR		EUR	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-current derivative financial instruments	-	-	-	-	-	-
Current derivative financial instruments	3,408	(1,022,832)	2,448,709	-	304,945	(682,469)
	<u>3,408</u>	<u>(1,022,832)</u>	<u>2,448,709</u>	<u>-</u>	<u>304,945</u>	<u>(682,469)</u>

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 33 on fair value of derivative financial instruments

19. Cash and short-term deposits

	31//12//2016	31//12//2015	01//01//2015
	EUR	EUR	EUR
Cash at bank	4,496,678	1,852,494	5,698,298
	<u>4,496,678</u>	<u>1,852,494</u>	<u>5,698,298</u>

20. Share capital and reserves

a. Share capital

As at 31 December 2016, the Company's registered and paid-in share capital was EUR 9,784,790 (31/12/2015: EUR 9,784,790) and consisted of 9,784,790 shares (31.12.2015: 9,784,790 shares; 01.01.2015: 6,876,790 shares). The par value per share is EUR 1.00 (31.12.2015: EUR 1, 01.01.2015: EUR 1).

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

b. Share premium

During 2005 share capital was increased, attracting new shareholders. As a result of share capital increase and attraction of new shareholders, share premium reserve in the amount of USD 4 973 947 was created.

c. 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 reflects the income and share data used in the earnings per share computations:

	2016	2015
	EUR	EUR
Profit attributable to equity holders of the Company	8,364,304	8,696,685
Weighted average number of ordinary shares in issue*	9,784,790	9,784,790
Earnings per share (EUR per share)	<u>0,85</u>	<u>0,89</u>

Notes (cont'd)

21. Debt securities

On 16 October 2015, the Company issued bonds (ISIN: LV0000801892) amounting to EUR 8 million. The bonds mature on 16 October 2018. The bonds bear interest at a fixed rate (coupon) of 8% per annum. At the year end, issued debt securities (bonds) are recorded at their par value Bonds' fair value disclosed in Note 33.

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

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

22. Other borrowings

Non-current portion

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Portion of finance leases maturing between 2 and 5 years	18,090	44,677	58,170
	<u>18,090</u>	<u>44,677</u>	<u>58,170</u>

Current portion

Portion of finance leases maturing within 1 year	33,047	48,244	48,004
	<u>33,047</u>	<u>48,244</u>	<u>48,004</u>

As disclosed in Note 11, the Company has acquired assets under finance lease terms. The present value of finance lease liabilities may be specified as follows:

Portion of finance leases maturing within 1 year	33,047	48,244	48,004
Portion of finance leases maturing between 2 and 5 years	18,090	44,677	58,170
	<u>51,137</u>	<u>92,921</u>	<u>106,174</u>

Finance lease liabilities – minimum lease payments:

Portion of finance leases maturing within 1 year	33,913	49,488	49,242
Portion of finance leases maturing between 1 and 5 years	18,564	45,830	59,671
	<u>52,477</u>	<u>95,318</u>	<u>108,913</u>
Future finance charges	(1,340)	(2,397)	(2,739)
Present value of finance lease liabilities	<u>51,137</u>	<u>92,921</u>	<u>106,174</u>

The effective interest rate applied to finance leases as at 31 December 2016 was 2.62% (31/12/2015: 2.58%; 01/01/2015: 2.58%). In 2016, the Company paid EUR 52,744 (2015: EUR 66,253;) for assets held under finance lease terms.

23. Loans from credit institutions

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Credit line from AS Swedbank *	693,819	4,784,601	-
Credit line from AS SEB banka **	23,564,076	21,428,846	22,376,814
Loan from OJSC Promsvyazbank Cyprus Branch***	-	12,395,629	13,824,184
Credit line from AS Nordea Bank AB****	22,036,392	21,710,311	18,525,188
Credit line from OP Corporate Bank plz Latvia branch*****	14,200,225	-	-
Credit balance of credit cards	5,509	2,633	3,093
	<u>60,500,021</u>	<u>60,322,020</u>	<u>54,729,279</u>

Notes (cont'd)

23. Loans from credit institutions (cont'd)

* On 29 July 2016, 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 reduced from 5.5% to 3.5% per annum. The maximum limit remained USD 7,500,000. The credit line matures on 5 November 2017.

** On 29 July 2016, 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 reduced from 3.75% to 2.95% per annum (2014: 2.62%). The maximum limit remained USD 25,000,000 (2014: USD 50,000,000). The credit line matures on 31 July 2017.

*** On 23 December 2016, AS ELKO Grupa terminated the credit line agreement with Promsvyazbank PJSC Cyprus Branch. The maximum limit was RUB 1,070,000,000 (2015: RUB 1,000,000,000). The floating interest rate was not less than 12% and not more than 40% per annum (2016: The floating interest rate was not less than 12% and not more than 16% per annum).

**** On 29 July 2016, AS ELKO Grupa signed an agreement amending the overdraft agreement with AS Nordea Bank AB, dated 5 November 2015. According to the amendments, the base interest rate remained overnight LIBOR USD/EONIA EUR, while the margin was increased from 2.9% to 3.2% per annum (2015: 3-month LIBOR USD plus 2.62% per annum). The maximum overdraft limit remained USD 30,498,963 (2014: USD 25,000,000). The overdraft matures on 31 July 2017.

***** On 29 July 2016, AS ELKO Grupa entered into an overdraft agreement with OP Corporate Bank plz Latvia branch. The maximum limit is USD 15,000,000. The interest rate is set as 3-month LIBOR USD plus a margin of 3.0% per annum. The overdraft matures on 28 July 2017.

The effective interest rate on the bank borrowings as at 31 December 2016 was 3.06% (31/12/2015: 5.48%; 01/01/2015: 5.24%).

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

24. Other liabilities

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Bonuses for the reporting year	226,711	231,300	229,072
Other	6,849	9,031	3,925
	<u>233,560</u>	<u>240,331</u>	<u>232,997</u>

25. 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:

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Deferred income tax assets:			
- deferred tax assets recoverable within one year	61,368	61,465	50,937
	<u>61,368</u>	<u>61,465</u>	<u>50,937</u>
Deferred income tax liabilities:			
- valuation allowance for unrecognized deferred tax assets	(27,679)	(32,399)	(34,683)
- deferred tax liabilities recoverable in more than one year	(34,458)	(21,430)	(14,173)
- deferred tax liabilities recoverable within one year	769	(7,636)	(2,081)
	<u>(61,368)</u>	<u>(61,465)</u>	<u>(50,937)</u>
Net deferred tax liabilities	-	-	-

Notes (cont'd)

25. 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	33,689	29,066	16,254
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Deferred income tax assets:

Vacation pay reserve	(30,610)	(29,440)	(25,973)
Accumulated bad receivables	(22,730)	(20,617)	(15,491)
Provisions for RMA liabilities	(8,028)	(11,408)	(9,473)
Valuation allowance for deferred tax assets*	(27,679)	(32,399)	(34,683)
Deferred tax liabilities	-	-	-

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

Notes (cont'd)

26. Taxes payable

	Corporat e income tax	VAT (Latvia)	VAT (Nether- lands)	Social insurance contribu- tions	Personal income tax	Unemploy- ment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 01/01/2015	-	434,686	-	87,389	58,600	73	580,748
(Receivable) as at 01/01/2015	(6,913)	-	(1,056,786)	-	-	-	(1,063,699)
Calculated for 2015	459,237	1,481,965	(4,138,654)	1,584,746	858,276	893	246,463
Refunded from the budget	-	5,071	2,559,853	-	-	-	2,564,924
Paid in 2015	(611,489)	(1,912,000)	-	(1,672,135)	(916,876)	(966)	(5,113,466)
Payable as at 31/12/2015	-	9,722	-	-	-	-	9,722
(Receivable) as at 31/12/2015	(159,165)	-	(2,635,587)	-	-	-	(2,794,752)
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)
Payable as at 31/12/2016	-	-	-	-	-	-	-
(Receivable) as at 31/12/2016	(127,482)	(160,039)	(1,853,691)	-	(839)	-	(2,142,051)

*Overpaid taxes are disclosed as other receivables (see also Note 15).

Notes (cont'd)

27. Accrued liabilities

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Vacation pay reserve	204,070	196,272	173,153
Marketing	141,553	54,499	62,774
RMA provisions (see also Note 29)	53,518	76,051	63,153
Other accrued expense	330,670	432,612	769,179
Interest accrued on loans from related companies	75,378	61,771	48,738
Interest accrued on long-term debt securities (see also Note 21)	135,014	133,260	-
Accrued expenses for the acquisition of goodwill (see also Note 10)	-	50,000	-
	<u>940,203</u>	<u>1,004,465</u>	<u>1,116,997</u>

28. Average number of employees

	2016	2015
Average number of employees during the reporting year:	<u>223</u>	<u>203</u>

29. Provisions

	RMA provisions
	EUR
As at 1 January 2015	<u>63,153</u>
Arising during the year	12,898
Utilized	-
Unused amounts reversed	-
As at 1 January 2016	<u>76,051</u>
Arising during the year	-
Utilized	(22,533)
Unused amounts reversed	-
As at 31 December 2016	<u>53,518</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 are incurred along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The amount of provision with respect to warranties is disclosed in Note 3 and Note 29.

Notes (cont'd)

30. Management remuneration

	2016 EUR	2015 EUR
Board Members		
- wages and salaries	219,436	215,228
- statutory social insurance contributions	51,765	44,305
	<u>271,201</u>	<u>259,533</u>

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.

31. Pledges and issued guarantees

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

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

On 28 January 2016, AS ELKO Grupa issued a guarantee to Dell Emerging Markets (EMEA) Ltd. for the liabilities of the subsidiary ELKOTech Romania SRL amounting to USD 1,500,000 (2015: USD 1,000,000,000). The guarantee will be effective until 1 February 2017.

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. The guarantee will be effective until 5 June 2017.

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. The guarantee will be effective until 30 September 2017.

On 21 July 2016, AS ELKO Grupa issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary Elko Mobile Ltd amounting to USD 100,000,000. The guarantee will be effective until 21 July 2017.

On 20 May 2016, AS ELKO Grupa issued a guarantee to IBM Belgium Financial services Company S.P.R.L. for the liabilities of the subsidiary Elko Mobile Ltd amounting to EUR 40,000,000 (2015: EUR 40,000,000). The guarantee will be effective until 18 August 2017.

On 1 April 2016, AS ELKO Grupa signed an agreement with OTP Bank PJSC on the increase of the amount of the guarantee issued on 25 June 2014 to UAH 150,000,000 (2014: UAH 100,000,000). 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 March 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. The guarantee will be effective until 25 August 2017.

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

On 9 September 2016, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the subsidiary Elko Ukraine LLC towards JSC Ukrsibbank amounting to USD 1,000,000. The guarantee will be effective until 7 October 2017.

On 6 October 2016, AS Nordea Bank AB on behalf of AS ELKO Grupa issued a guarantee for the liabilities of the subsidiary Elko Ukraine LLC towards PJSC Credit Agricole Bank amounting to USD 1,000,000. The guarantee will be effective until 5 November 2017.

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 (cont'd)

31. Pledges and issued guarantees (cont'd)

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 2016, the total trade financing limit assigned to both companies by AG Deutsche Bank New York branch was USD 40,000,000. The guarantee will be effective until 17 September 2017.

On 30 November 2016, 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 (2015: USD 1,000,000). The guarantee will be effective until 30 November 2017.

On 21 December 2016, AS ELKO Grupa entered into an agreement with Swedbank AS on the extension of the guarantee issued on 23 October 2013. Swedbank AS issued a guarantee to Lenovo PC HK Ltd for the liabilities of the subsidiary Elko Mobile Ltd towards the beneficiary of the guarantee - Lenovo PC HK Ltd amounting to USD 2,000,000 (2015: USD 2,000,000). The guarantee will be effective until 31 December 2017.

On 23 December 2016, AS ELKO Grupa entered into an agreement with Swedbank AS on the extension of the guarantee issued on 23 December 2015. Swedbank AS issued a guarantee to Microsoft Ireland Operations Limited for the liabilities of the subsidiary ALMA LLC towards the beneficiary of the guarantee - Microsoft Ireland Operations Limited amounting to USD 250,000 (2015: USD 250,000). The guarantee will be effective until 31 December 2017.

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

Notes (cont'd)

32. Related party disclosures

During the reporting year, AS ELKO Grupa sold computer components and provided services to its subsidiaries for more than EUR 295 million (2015: EUR 255 million; 2014: EUR 379 million). In 2016, payments for these supplies were made by the contractual due dates.

The Company had the following transactions with related parties:

Company	Sales		Purchases	
	2016 EUR	2015 EUR	2016 EUR	2015 EUR
ELKO Trading Switzerland AG	255,820,451	219,776,599	2,808,726	2,601,857
Liquidated ELKO Latvija SIA	-	3,619	-	-
ELKO Eesti OU	-	-	366,920	277,760
ELKO Lietuva UAB	64	-	475,930	398,173
Elko Mobile Ltd	8,768,993	4,343,313	-	-
ELKOTEX d.o.o.	7,625,370	6,004,931	56,221	99,005
ELKOTech Romania SRL	17,077,245	15,350,279	178,786	262,973
WESTech Spol s.r.o.	5,722,368	6,872,162	134,724	137,656
Liquidated PRUVIA SIA	-	2,458	-	121,402
ELKO Kazakhstan LLP	-	-	-	-
ELKO Marketing Ltd	-	2,816,795	-	-
AST Balts SIA	171,769	-	1,221,018	1,479,000
	<u>295,186,260</u>	<u>255,170,156</u>	<u>5,242,325</u>	<u>5,377,826</u>

Receivables and payables arising from transactions with related parties:

Company	Amounts due from subsidiaries			Amounts due to subsidiaries		
	31/12/2016 EUR	31/12/2015 EUR	01/01/2015 EUR	31/12/2016 EUR	31/12/2015 EUR	01/01/2015 EUR
ELKO Trading Switzerland AG *	32,059,068	717,735	62,819,574	200,542	5,431,787	1,428,528
ELKO Eesti OU	-	-	-	39,579	43,143	31,650
ELKO Lietuva UAB	-	-	-	71,553	76,324	37,229
ELKOTEX d.o.o.	747,519	390,997	612,396	3,430	2,256	4,143
ELKOTech Romania SRL **	1,202,396	2,353,776	3,148,238	74	477	-
ELKO Marketing Ltd	-	-	-	-	-	-
Elko Mobile Ltd ***	3,782,449	1,045,102	-	-	-	-
WESTech Spol s.r.o.	111,977	674,427	-	15,889	-	39,324
Liquidated PRUVIA SIA	-	-	463	-	-	-
	<u>37,903,409</u>	<u>5,182,037</u>	<u>66,580,671</u>	<u>331,067</u>	<u>5,553,987</u>	<u>1,540,874</u>

* Including interest payable for current loans: EUR 383,395 as at 31/12/in 2016 (31/12/ (2015: EUR 717,735; 01/01/2015: EUR 772,177).

** Including interest payable for current loans: EUR 0 in 2016 (2015: EUR 16,224; 2014: EUR 16,373).

*** Including interest payable for current loans: EUR 3,782,449 in 2016 (2015: EUR 1,045,102; 2014: EUR 0).

Notes (cont'd)

32. Related party disclosures (cont'd)

Non-current loans to related companies

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Loan to SIA AST Balts	3,426,000	3,426,000	-
	<u>3,426,000</u>	<u>3,426,000</u>	<u>-</u>

On 28 January 2016, AS ELKO Grupa signed an agreement amending the loan agreement with SIA AST Balts signed on 25 August 2015. According to the amendments, the maximum loan amount has been increased to EUR 3,926,000. The interest rate is 5% per annum. The loan matures on 31 August 2020.

Current loans to related companies

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Credit line issued to ELKO Trading Switzerland AG, carrying amount*	31,920,086	57,866,229	61,774,154
Loan issued to ELKOTech Romania SRL, carrying amount**	-	748,634	755,514
Loan issued to ELKO Mobile Ltd., carrying amount***	56,080,740	50,091,694	-
	<u>88,000,826</u>	<u>108,706,557</u>	<u>62,529,668</u>

* On 29 July 2016, the Company entered into a credit line agreement with the subsidiary ELKO Trading Switzerland Ltd for the maximum amount of USD 77,998,963 (31/12/2015 – USD 62,998,963, 01/01/2015 – 75,000,000). The credit line bears interest at 4.7% (in 2015 and 2014: 5.5% per annum) per annum. The credit line matures on 5 November 2017.

** On 23 September, the Company terminated the loan agreement with the subsidiary ELKOTech Romania SRL. The loan amounted to RON 3,386,819 (as of 31/12/in 2015 and 01/01/2015: RON 3,386,819) and bore interest at 7% per annum (in 2015 and 2014: 7% per annum).

*** On 27 December 2016, the Company signed an agreement amending the loan agreement with the subsidiary ELKO Mobile Ltd signed on 19 May 2015. According to the amendments, the maturity has been extended to 29 December 2017. The maximum loan amount is USD 85,000,000 (as of 31/12/in 2015 and 01/01/2015: USD 60,000,000); the loan bears interest at interest at 5% per annum (as of 31/12/in 2015 and 01/01/2015: 5% per annum).

Current loans received from related parties

	31/12/2016	31/12/2015	01/01/2015
	EUR	EUR	EUR
Current loan received from ELKO Lietuva UAB, current amount *	260,658	260,658	260,658
Current loan received from WESTech spol.s.r.o., current amount **	7,000,000	-	-
	<u>7,260,658</u>	<u>260,658</u>	<u>260,658</u>

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

** On 13 December 2016, the Company signed an agreement amending the loan agreement with the subsidiary WESTech spol.s.r.o. signed on 30 December 2015. According to the amendments, the maturity has been extended to 31 March 2017. The maximum loan amount is EUR 7,000,000; the loan bears interest at 3% per annum.

Notes (cont'd)

33. Fair value measurement

Fair value measurement hierarchy as at 31 December 2016

	Date of valuation	Total		Fair value measurement using Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		EUR	Quoted prices in active markets (Level 1) 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

Fair value measurement hierarchy as at 31 December 2015

	Date of valuation	Total		Fair value measurement using Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		EUR	Quoted prices in active markets (Level 1) EUR	EUR	EUR
Assets measured at fair value:					
Non-current loans to related companies (Note 32)	31 December 2015	3,426,000	-	-	3,426,000
Current loans to related companies (Note 32)	31 December 2015	108,706,557	-	-	108,706,557
Liabilities measured at fair value:					
Bonds (Note 21)	31 December 2015	8,640,000	-	8,640,000	-
Obligations under finance lease (Note 22)	31 December 2015	92,921	-	92,921	-
Loans from credit institutions (Note 23)	31 December 2015	60,322,020	-	60,322,020	-
Loans from related companies (Note 32)	31 December 2015	260,658	-	-	260,658

33. Fair value measurement

Notes (cont'd)

Fair value measurement hierarchy as at 1 January 2015

	Date of valuation	Total		Fair value measurement using Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		EUR	Quoted prices in active markets (Level 1) EUR	EUR	EUR
Assets measured at fair value:					
Non-current loans to related companies (Note 32)	1 January 2015	-	-	-	-
Current loans to related companies (Note 32)	1 January 2015	62,529,668	-	-	62,529,668
Liabilities measured at fair value:					
Bonds (Note 21)	1 January 2015	-	-	-	-
Obligations under finance lease (Note 22)	1 January 2015	106,174	-	106,174	-
Loans from credit institutions (Note 23)	1 January 2015	54,729,279	-	54,729,279	-
Loans from related companies (Note 32)	1 January 2015	260,658	-	-	260,658

	Date of valuation	Total		Fair value measurement using Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		EUR	Quoted prices in active markets (Level 1) EUR	EUR	EUR
Financial assets and liabilities for which fair values are disclosed:					
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	-
Derivative financial instruments (Note 18)	31 December 2015	2,448,709	-	2,448,709	-
Derivative financial instruments (Note 18)	1 January 2015	682,469	-	682,469	-

34. Financial risk management

Geopolitical risk

The group 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 Group in a manner not currently determinable. To mitigate foreign currency translation risks the Group 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.

34. Financial risk management (continued)

Related party transaction compliance risk

Notes (cont'd)

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

Multi-currency risk

AS ELKO Grupa operates internationally and is therefore exposed to foreign currency risk arising primarily with respect to the US dollar and the Russian rouble. Foreign currency risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments. Purchases of goods from vendors are predominantly made in the US dollar and the euro. Sales by the Company to its subsidiaries are chiefly made in the US dollar. Sales to Lithuanian and Estonian customers are carried out in the euro. 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)
2016		
+5%	(1,281)	(1,281)
-5%	1,281	1,281
2015		
+5%	(1,708)	(1,708)
-5%	1,708	1,708
2014		
+5%	(373)	(373)
-5%	373	373

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 18.

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 2016, the Company's borrowings at variable rates were predominantly denominated in US dollars, Russian rubles and Euro (Note 23).

34. Financial risk management (cont'd)

Notes (cont'd)

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.

	Increase / decrease in basis points	Effect on profit before tax (‘000)
2016	+10	+48
	-10	-48
2015	+10	+41
	- 10	-41
2014	+10	+50
	- 10	-50

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 2016 is EUR 172,557 thousands (2015: EUR 138,398 thousand, 2014: EUR 145,297 thousand).

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

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

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.

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

Year ended 31/12/2016	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	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

34. Financial risk management (cont'd)

Notes (cont'd)

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

Year ended 31/12/2015	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	45	45
Bonds	-	-	-	9,920	9,920
Current borrowings	-	48	61,838	268	62,154
Trade and other payables	-	43,499	-	-	43,499
Other liabilities	-	250	-	-	250

The table below summarises the maturity profile of the Company's financial liabilities at 1 December 2015 based on contractual undiscounted payments in EUR'000:

Year ended 01/01/2015	On demand EUR'000	< 3 months EUR'000	3 to 12 months EUR'000	1 to 5 years EUR'000	Total EUR'000
Non-current borrowings	-	-	-	58	58
Current borrowings	-	48	56,104	268	56,421
Trade and other payables	-	79,419	-	-	79,419
Other liabilities	-	814	-	-	814
Derivative financial instruments	-	682	-	-	682

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.

Notes (cont'd)

34. Financial risk management (cont'd)

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

	31.12.2016	31.12.2015	01.01.2015
	EUR '000	EUR '000	EUR '000
Company financials			
Share capital	9,785	9,785	9,785
Total equity	56,244	53,380	44,683
Total equity/ Share capital	575%	546%	457%

35. Events after balance sheet date

Except as disclosed in these financial statements, as of the last day of the reporting year there have been no other events which could produce a material impact on the Company's financial position as at 31 December 2016.

 Egons Mednis

Chairman of the Board,
 President

 Kristine Paule

Chief accountant

28 April 2017