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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Elko Grupa AS

Opinion

We have audited the accompanying financial statements of Elko Grupa AS (the Company) set out on pages 6 to 50 of the accompanying annual report, which comprise the statement of financial position as at 31 December 2016 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How we addressed the key audit matter
Geopolitical and currency risk As disclosed in Note 32 Related party disclosures sales to CIS countries amount to 264 589 thousand EUR for the period ending 31 December 2016. As a result of the geopolitical tension in eastern Ukraine, the sanctions imposed by Western countries on the Russian economy that followed the escalation of the military conflict in Ukraine as well as the decrease in oil prices, the economic conditions in the East European sub-region including the respective countries have been negatively affected starting from 2014.	We performed the following procedures, among others: <ul style="list-style-type: none">➤ We obtained an assessment on geopolitical and currency risks prepared by the Company's management and identified respective risk management principles;➤ We tested the receivables ageing and assessed the level of allowances for the bad debts made for entities selling in Russia and Ukraine;➤ We reviewed subsequent payments from debtors of the entities selling in Russia and Ukraine;



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

Geopolitical and currency risk was material to our audit due to the fact that a significant part of the Company's revenues are generated from sales to Russia and Ukraine and if those markets further deteriorate it would have an adverse effect on the Company's business volumes, debtors recoverability and losses from the changes in foreign currency exchange rates.

- We reviewed Company's interim financial results for 1Q 2017, including the CIS business segment;
- We reviewed the Company's internal procedures in respect of the assessment of allowances for doubtful trade receivables;
- We performed analytical review procedures in respect of receivables aging structure and year-to-year changes for unusual fluctuations;
- We discussed with the Company's management the procedures of managing foreign currency exchange risk
- We performed analytical review procedures by forming an expectation of gains and losses arising from the changes in foreign currency exchange rate based on the currency exchange rate movements.

We also evaluated adequacy of the Company's disclosures in relation to trade receivable related disclosures in Note 14 *Trade receivables* and foreign exchange related disclosures in Note 34 *Geopolitical risk*

Disclosure and impact to the financial statements as a result of adoption of International Financial Reporting Standards in 2016

The Company applies International Financial Reporting Standards (IFRS) as adopted by the European Union from 1 January 2015 and in year 2016 presented its first set of financial statements prepared in accordance with IFRS. Until the year 2016 financial statements were prepared in accordance with the Law of the Republic of Latvia on Annual Reports. The Company applies IFRS as they have listed their bonds on NASDAQ Riga stock exchange and Latvian legislation requires that companies with listed prepare their financial statements according to IFRS

Applying IFRS in 2016, resulted in no retrospective adjustments impacting the statement of financial position, profit or loss, statement of changes in equity and statement of cash flows. The Company also disclosed other comprehensive income in the statement of comprehensive income.

This was important to our audit due to the magnitude of the change and the significant disclosures required.

Transactions with related parties

As significant part of the Company's revenue relate to transactions with related parties as disclosed in Note 32 *Related party transactions*. Most of the transactions are with Elko Trading Switzerland (63% of the total Company's revenue) and other related parties (7.4% of the total Company's revenue).

We involved technical IFRS specialists to assist in assessing the scope of accounting policy changes and the effect of retrospective restatements of comparative information to the financial statements. We performed procedures to ensure that the accounting policies applied by the Company in the year 2016 were consistent with the policies applied in Elko Group consolidated financial statements, which have been prepared under IFRS already in the past.

We also assessed the adequacy of the disclosures (Note 2.1. *Transition to IFRS*) regarding IFRS adoption in the 2016 financial statements to determine whether they are in accordance with IFRS requirements.

We performed following the procedures, among others:

- We performed the sales process walkthrough with related parties;
- We tested controls over sales process to related parties;
- We tested the relevant IT system controls over the revenue recording and correct margin application to related party transactions;



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

Transactions with related parties are significant for audit due to the materiality of revenue which is generated through related parties and the possible transfer pricing risk associated with transactions with related parties.

- We obtained the transfer pricing documentation prepared by the Company. We involved Tax specialists to assess the key assumptions made by the Group's management;
- We assessed the application of the Company's transfer pricing documentation in executing the business transactions.

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

Other information included in the Company's 2016 Annual Report

Management is responsible for the other information. The other information comprises the Management Report as set out on pages 4 to 5 of the accompanying annual report, but does not include the financial statements and our auditors report thereon.

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

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

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

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

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

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

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

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

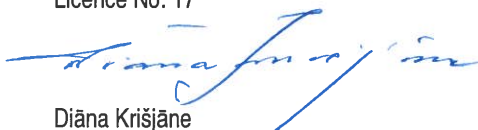
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

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Licence No. 17



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

Rīga,
28 April 2017