



## **ELKO GRUPA JSC**

### **Consolidated Financial Statements**

**For the year ended 31 December 2006**

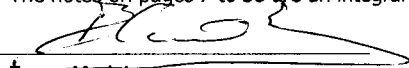
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## Consolidated balance sheet

	Note	31.12.2006	31.12.2005	31.12.2004
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	354	397	263
Intangible assets	8	31	28	65
Deferred income tax assets	17	10	-	-
		<b>395</b>	<b>425</b>	<b>328</b>
<b>Current assets</b>				
Inventories	11	76,710	59,891	23,471
Current income tax receivable		69	96	105
Trade and other receivables	10	43,988	22,253	16,787
Derivative financial instruments	9	114	-	-
Cash and cash equivalents	12	1,163	1,475	1,131
		<b>122,044</b>	<b>83,715</b>	<b>41,494</b>
<b>Total assets</b>		<b>122,439</b>	<b>84,140</b>	<b>41,822</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Ordinary shares	13	6,877	6,877	6,000
Share premium	13	3,496	3,496	-
Translation reserve		300	49	77
Retained earnings		21,980	11,571	6,700
		<b>32,653</b>	<b>21,993</b>	<b>12,777</b>
<b>Minority interest in equity</b>		<b>1,512</b>	<b>1,051</b>	<b>963</b>
<b>Total equity</b>		<b>34,165</b>	<b>23,044</b>	<b>13,740</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	15	107	76	12
Deferred income tax liabilities	17	2	7	9
		<b>109</b>	<b>83</b>	<b>21</b>
<b>Current liabilities</b>				
Trade and other payables	14	51,615	48,280	20,981
Current income tax liabilities		691	395	270
Borrowings	15	33,789	10,547	5,653
Derivative financial instruments	9	154	-	-
Provisions	16	1,916	1,791	1,157
		<b>88,165</b>	<b>61,013</b>	<b>28,061</b>
<b>Total liabilities</b>		<b>88,274</b>	<b>61,096</b>	<b>28,082</b>
<b>Total equity and liabilities</b>		<b>122,439</b>	<b>84,140</b>	<b>41,822</b>

The notes on pages 7 to 38 are an integral part of these consolidated financial statements.

  
Egons Mednis  
Chairman of the Board

15 May 2007

## Consolidated income statement

	Note	2006	2005	2004
Revenue	6	356,184	338,293	216,669
Cost of sales		(335,783)	(324,851)	(207,437)
<b>Gross profit</b>		<b>20,401</b>	<b>13,442</b>	<b>9,232</b>
Distribution costs		(1,486)	(1,168)	(1,053)
Administrative expenses		(5,096)	(4,710)	(3,339)
Other income	21	1,334	1,693	375
Other expenses		(1,553)	(112)	(344)
<b>Operating profit</b>		<b>13,600</b>	<b>9,145</b>	<b>4,871</b>
Finance income		1,451	26	255
Finance costs		(1,216)	(1,112)	(247)
Finance income/ (costs) – net	22	235	(1,086)	8
<b>Profit before income tax</b>		<b>13,835</b>	<b>8,059</b>	<b>4,879</b>
Income tax expense	23	(954)	(621)	(458)
<b>Profit for the year</b>		<b>12,881</b>	<b>7,438</b>	<b>4,421</b>
<b>Attributable to:</b>				
Equity holders of the Company		12,501	7,227	4,142
Minority interest		380	211	279
		<b>12,881</b>	<b>7,438</b>	<b>4,421</b>
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in LVL per share)	24	<b>1.82</b>	<b>1.14</b>	<b>0.69</b>

The notes on pages 7 to 38 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

Note	Attributable to equity holders of the Group						Total equity
	Share capital	Share premium	Translation reserve	Retained earnings	Total	Minority interest	
<b>Balance at 1 January 2004</b>	<b>6,000</b>	<b>-</b>	<b>90</b>	<b>2,558</b>	<b>8,648</b>	<b>659</b>	<b>9,307</b>
Currency translation differences	-	-	(13)	-	(13)	25	12
Profit for the year	-	-	-	4,142	4,142	279	4,421
<b>Total recognized income and expense for 2004</b>	<b>-</b>	<b>-</b>	<b>(13)</b>	<b>4,142</b>	<b>4,129</b>	<b>304</b>	<b>4,433</b>
<b>Balance at 31 December 2004</b>	<b>6,000</b>	<b>-</b>	<b>77</b>	<b>6,700</b>	<b>12,777</b>	<b>963</b>	<b>13,740</b>
<b>Balance at 1 January 2005</b>	<b>6,000</b>	<b>-</b>	<b>77</b>	<b>6,700</b>	<b>12,777</b>	<b>963</b>	<b>13,740</b>
Currency translation differences	-	-	(28)	-	(28)	32	4
Profit for the year	-	-	-	7,227	7,227	211	7,438
<b>Total recognized income and expense for 2005</b>	<b>-</b>	<b>-</b>	<b>(28)</b>	<b>7,227</b>	<b>7,199</b>	<b>243</b>	<b>7,442</b>
Increase of share capital 13	877	3,496	-	-	4,373	-	4,373
Dividend relating to 2004 25	-	-	-	(2,356)	(2,356)	(155)	(2,511)
<b>Balance at 31 December 2005</b>	<b>6,877</b>	<b>3,496</b>	<b>49</b>	<b>11,571</b>	<b>21,993</b>	<b>1,051</b>	<b>23,044</b>
<b>Balance at 1 January 2006</b>	<b>6,877</b>	<b>3,496</b>	<b>49</b>	<b>11,571</b>	<b>21,993</b>	<b>1,051</b>	<b>23,044</b>
Currency translation differences	-	-	251	-	251	81	332
Profit for the year	-	-	-	12,501	12,501	380	12,881
<b>Total recognized income and expense for 2006</b>	<b>-</b>	<b>-</b>	<b>251</b>	<b>12,501</b>	<b>12,752</b>	<b>461</b>	<b>13,213</b>
Dividend relating to 2005 25	-	-	-	(2,092)	(2,092)	-	(2,092)
<b>Balance at 31 December 2006</b>	<b>6,877</b>	<b>3,496</b>	<b>300</b>	<b>21,980</b>	<b>32,653</b>	<b>1,512</b>	<b>34,165</b>

Retained earnings are LVL 21,980 thousand (2005: LVL 11,571 thousand; 2004: LVL 6,700 thousand), of which LVL 52 thousand (2005: LVL 62 thousand; 2004: LVL 36 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 7 to 38 are an integral part of these consolidated financial statements.

## Consolidated cash flows statement

	Note	2006	2005	2004
<b>Cash flows from operating activities</b>				
Cash used in operations	26	(19,789)	(5,122)	(701)
Interest paid	22	(902)	(504)	(247)
Interest received		29	25	17
Income tax paid		(646)	(510)	(239)
Net cash used in operating activities		<b>(21,308)</b>	<b>(6,111)</b>	<b>(1,170)</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(108)	(190)	(133)
Proceeds from sale of property, plant and equipment	26	65	19	9
Purchases of intangible assets		(14)	(9)	(12)
Net cash used in investing activities		<b>(57)</b>	<b>(180)</b>	<b>(136)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares	13	-	4,373	-
Proceeds from borrowings		33,752	4,868	2,300
Repayments of borrowings		(10,562)	(170)	(842)
Dividends paid to Company's shareholders	25	(2,092)	(2,356)	-
Dividends paid to Minority shareholders		(50)	(100)	-
Net cash generated from financing activities		<b>21,048</b>	<b>6,615</b>	<b>1,458</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(317)</b>	<b>324</b>	<b>152</b>
Cash and cash equivalents at beginning of the year		1,475	1,131	982
Exchange gains / (losses) on cash		5	20	(3)
<b>Cash and cash equivalents at end of the year</b>	12	<b>1,163</b>	<b>1,475</b>	<b>1,131</b>

The notes on pages 7 to 38 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. General information

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

The Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Rupniecibas str. 27, Riga, LV-1045, Latvia. These consolidated financial statements have been prepared for issue by the Management on 15 May 2007 and signed on its behalf by the Chairman of the Board Egons Mednis.

The Company has the following participating interest in the subsidiaries:

Name	Country	Participating interest in share capital of subsidiaries		
		31.12.2006	31.12.2005.	31.12.2004.
		%	%	%
ELKO Eesti AS	Estonia	100%	100%	100%
WESTech s.r.o.	Slovakia	51%	51%	51%
ELKOTech Romania SA	Romania	51%	51%	51%
ELKO Latvija SIA	Latvia	100%	100%	100%
ELKOTEX d.o.o.	Slovenia	51%	51%	51%
ELKOTECH d.o.o.	Croatia	70%	63%	63%
ELKO Kaunas UAB	Lithuania	80%	80%	80%
ELKO Trading Switzerland AG	Switzerland	100%	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%	100%
Statex Consulting Limited	British Virgin Islands	100%	100%	100%

### 2. Summary of significant accounting policies

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

#### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued and effective at the time of preparing these financial statements and as adopted for use in the European Union. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments at fair value.

All amounts in the consolidated financial statements including note disclosures are stated in thousands of Latvian Lats (LVL), rounded to the nearest thousand, unless stated otherwise.

These financial statements are the first financial statements of the Group prepared in accordance with IFRS. Until 31 December 2005 the Group's financial statements were prepared in accordance with Latvian legislation. For this purpose IFRS 1, First-time adoption of IFRS, has been applied. The effect of transition to IFRS has been disclosed in Note 5.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The Group has not early adopted any standards, amendments or interpretations.

## Notes to the consolidated financial statements (continued)

### 2.1 Basis of preparation (continued)

#### Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

*IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).*

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendments to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

*IFRS 8, Operating Segments (effective from 1 January 2009).*

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 Disclosures about Segments of an Enterprise and Related Information. The Group plans to apply IFRS 8 from annual periods beginning 1 January 2009 and at present is assessing potential effect of this standard of disclosures in the Group's financial statements.

*IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).*

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

#### Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

*IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006).*

IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, IFRIC 7 is not relevant to the Group's operations;

*IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).*

IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. IFRIC 8 it is not relevant to the Group's operations; and

*IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).*

IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

## Notes to the consolidated financial statements (continued)

### 2.1 Basis of preparation (continued)

*IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)*

IFRIC 11 addresses how to apply IFRS 2 Share-based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Group's operations.

*IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)*

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements. IFRIC 12 is not relevant to the Group's operations.

*IAS 23 (amendment), Borrowing Costs, revised (effective from 1 January 2009)*

### 2.2 Consolidation

#### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *(b) Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### 2.3 Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. This coincides with the Group's internal organisational and management structure and its internal financial management reporting system. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

### 2.4 Foreign currency translation

#### *(a) Functional and presentation Currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Lats (LVL), which is the Company's functional and presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## Notes to the consolidated financial statements (continued)

### 2.4 Foreign currency translation (continued)

#### *(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into Lats (LVL) as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

### 2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs are not capitalised.

Subsequent costs are included in the asset's carrying amount 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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost of assets to their residual values over their estimated useful lives, as follows:

	% per annum
- Motor vehicles	25
- Communication equipment	50
- Computers and other data accumulating equipment	50
- Other fixtures and fittings	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

### 2.6 Intangible assets

Group's intangible assets principally include acquired computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 years).

### 2.7 Impairment of non-financial assets

The Group does not have assets that are not subject to amortisation. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## Notes to the consolidated financial statements (continued)

### 2.8 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).

Since hedge accounting is not applied to derivative financial instruments these are classified as held for trading within financial instruments at fair value through profit or loss (Note 2.9). The Group does not have other financial assets within this category.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

### 2.9 Derivative financial instruments and hedging activities

The Group does not apply hedge accounting to derivative financial instruments, therefore they are classified in a category held for trading. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The Group's use of derivative financial instruments is limited to interest rate swaps and interest options used to reduce the Group's exposure to changes in floating interest rates. The changes in the fair value of derivative instruments are recognised immediately in the income statement.

### 2.10 Inventories

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

### 2.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. In estimating the required provisions, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of credit insurance, specifically identified customer risks and historical write-off experience. The amount of the provision is the difference between the amortised cost and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Trade receivables, which are sold to factoring company under recourse conditions, remain on the balance sheet as an asset. Corresponding liability is recognised within borrowings.

### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

### 2.13 Share capital and dividend distribution

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

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

## Notes to the consolidated financial statements (continued)

### 2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.15 Warranties

The Group assumes warranty obligations for the products sold to its customers, but it does not extend beyond the warranty provided by the supplier. The Group's vendors generally warrant the products distributed by the Group and allow returns of defective products, including those that have been returned to the Group by its customers. Provision for estimated warranty obligations is recorded as liability at the time of sale of product to the customer. Corresponding estimated receivables for warranty obligations provided to the group by the vendors are recorded as receivables at the time of sale of product to the customer.

### 2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. No borrowing costs are capitalised into any qualifying assets. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and a reliable estimate of the amount can be made. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### 2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## Notes to the consolidated financial statements (continued)

### 2.19 Revenue recognition (continued)

#### *(a) Sales of goods – wholesale*

Sales of goods are recognized when a group entity has transferred the risk and rewards, i.e. it has delivered products to the client and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery does not occur until the products have been shipped from warehouse, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the invoices, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases.

#### *(b) Sales of services*

The Group generates income from providing marketing and transport agency services. Since these services do not comprise Group's core business, the income is classified as other income in the income statement. These services are provided on a time and material basis or as a fixed-price contract. Revenue from fixed-price contracts for delivering transportation services is generally recognised by reference to the stage of completion of the service. Revenue from time and material contracts is recognized at contractual rates as direct expenses are incurred.

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

#### *(c) Interest income and income from penalties*

Interest income is recognised on a time-proportion basis using the effective interest method. Income from penalties charged to clients is recognized at the moment of receipt. Penalties represent mostly charges to customers for late payments.

### 2.20 Vendor programs

The Group receives funds from vendors in a form of credit notes for price protection, product rebates, marketing, promotion and infrastructure investments, which are booked as adjustments to the cost of inventory, cost of sales or other revenue based on the nature of the program. Some of these programs may extend over one or more reporting periods. Rebates or other vendor incentives as earned based on sales of respective products or as services are provided in accordance with the terms of the related program. Actual rebates may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued.

### 2.21 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## Notes to the consolidated financial statements (continued)

### 2.22 Pension obligations

The Group companies do not operate any pension plans other than those required by the applicable legislations in the respective countries. The Group companies pay social security contributions to the state social security funds (the Funds) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which Group company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

## 3. Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department of the Company both under policies approved and separate decisions by the Board of Directors. It identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Specifically, the Board has approved written policies for credit risk control.

#### *(1) Market risk*

##### *(a) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from primarily with respect to the US dollar and the EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The purchase of goods from vendors is predominantly done in the US dollars. The sales from the Company to subsidiaries are done in the US dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for ELKO Trading Switzerland AG, whose sales are done in the US dollars. Although the subsidiaries carry out the sales in the local currencies, the prices in the market tend to follow the purchasing currency the US dollars. ELKO Trading Switzerland sales in US dollars and its significant weight in the Group's sales result in the fact, that trade payables and receivables have very similar structure in terms of currency composition (Notes 10 and 14).

The Group has investments in foreign operations, which net assets are exposed to foreign currency translation risk. The Group does not hedge translation risk.

##### *(b) Cash flow interest rate risk*

The Group uses short-term borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. As of 2006 Group's policy is to hedge at least 50% of the available credit lines against increase in the variable interest rates. No hedge accounting has been applied to the respective derivative financial instruments (Notes 2.9 and 9) During 2006 and 2005, the Group's borrowings at variable rate were predominantly denominated in the US dollars (Note 15).

#### *(2) Credit risk*

Credit risk is managed on a Group basis by implementing centralised procedures and control. Credit risk arises from the credit exposure to outstanding trade receivables. The Group minimizes these risks through credit risk insurance and conservative credit policy. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilisation of credit limits is regularly monitored.

There were 5 of the Group's customers at 31 December 2006 (2005: nil; 2004: nil) comprising more than five percent of the Group's total receivables. Such receivables amounted to LVL 87,624 thousand at 31 December 2006 (2005: nil; 2004: nil).

#### *(3) Liquidity risk*

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

## Notes to the consolidated financial statements (continued)

### 3.2 Fair value estimation

The carrying value of trade receivables and payables approximates fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices.

### 4. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

#### *(a) Vendor programs*

The Group has to apply use of estimates about the credit notes due from vendors at the date of the balance sheet 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 programmes for the year ended 31 December 2006 amounted to LVL 1,881 thousand (2005: LVL 1,142 thousand; 2004: LVL 1,370 thousand) based on the individual vendor agreement assessment. If actual amount of vendors rebates differ from the amounts estimated, any amount will adjust cost of sales in the next period, or to the extent it relates to unsold inventory, will adjust inventory.

#### *(b) Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (Notes 17 and 23).

#### *(c) Impairment of inventories*

The Group is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most of the Group's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions. However, the Group does not have contractual rights to claim price protection to many of its vendors. Even when the contractual rights exist the announcement of price protection to distributors is at vendors' discretion. Accordingly, there are instances when vendors might be unable or unwilling to compensate the Group for price protection claims.

The outstanding price protection claims are LVL 128 thousand (2005: LVL 16 thousand; 2004: LVL 1 thousand).

Significant judgement is applied, when estimating the net realisable value of inventory. Incorrect assumptions could be made about the state of technological obsolescence, the nature of vendor relations and future demand (Note 11).

#### *(d) Impairment of trade receivables*

Significant judgement is applied, when estimating the provisions for impairment of trade receivables (Note 10).

#### *(e) Warranty provisions*

Warranty claims by customers are treated as a provision and respective reimbursements by the vendors are treated as a separate asset. Significant judgement is applied, when estimating the warranty provisions and reimbursements. The Group has estimated warranty provisions based on practice in the industry at 2.52% from the average quarterly sales. The corresponding warranty reimbursements by the vendors have been estimated based on practice in the industry at 2.00% from the average quarterly sales. Based on the past fact pattern, nature of the contractual relationship with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The amount of provision with respect to warranties was disclosed in Note 16. The amounts relating to reimbursement from vendors which were classified as receivable amounted to LVL 1,916 thousand as at 31 December 2006 (2005: LVL 1,791 thousand, 2004: LVL 1,157 thousand). Changes of the level of warranty claims to refusal to reimburse by vendors may affect future net income.

## Notes to the consolidated financial statements (continued)

### 4. Critical accounting estimates and assumptions (continued)

#### *(f) Revenue recognition*

The Group's sales to CIS and other countries segment (Note 6) are performed to the end customers using a number of intermediaries. The customers perceive the Group as a seller of the goods, the intermediaries in substance do not assume general inventory risk and usually the payments are made by the intermediaries to the Group after the intermediaries have received cash from the customers. Based on the above the management have concluded that the intermediaries act as agents and the Group recognises revenue after the intermediaries have sold goods to the customers. The goods that have been legally sold but for which no revenue is yet recognised are included in Inventories as consignment inventories (Note 11).

### 5. Transition to IFRS

#### 5.1 Descriptions of the effect of the transition from Latvian GAAP to IFRS

These consolidated financial statements are the first financial statements of the Group prepared in accordance with IFRS. For this purpose IFRS 1, First-time adoption of IFRS, has been applied. The reporting date for the Group's first IFRS financial statements is 31 December 2006 and IFRS adoption date is 1 January 2004. The date of transition to IFRS is the beginning of business on 1 January 2004. Until 31 December 2005 the Group's consolidated financial statements were prepared in accordance with the laws of the Republic of Latvia "On Accounting" and "On Consolidated Annual Accounts" and according to the mandatory applicable Latvian accounting standards (Latvian GAAP). The laws of the Republic of Latvia do not differ from IFRS in areas applicable to the operations of the Group except in respect of revenue recognition criteria, determination of the functional currency of foreign operations and treatment of obligations arising from warranty provisions as described below:

- a) The Group assessed the revenue recognition principles according to IAS 18. As a result a part of revenue of one foreign operation was derecognised retrospectively. This change resulted in a decrease of Trade and other receivables at 31 December 2004 by LVL 14,033 thousand and an increase of inventory at 31 December 2004 by LVL 14,033 thousand. Effectively revenues decreased by LVL 14,704 thousand and Cost of Sales by LVL 14,704 thousand. The changes did not affect the total consolidated equity as at 1 January 2004, 31 December 2004 or profit for 2004. Trade and other receivables at 31 December 2005 decreased by LVL 37,112 thousand and Inventory at 31 December 2005 increased by LVL 36,031 thousand. Revenues decreased by LVL 19,997 thousand and Cost of Sales by LVL 18,967 thousand. This change resulted in a decrease of Profit attributable to the equity holders of the Company for 2005 by LVL 1,030 thousand.
- b) The Group assessed the functional currencies of its foreign operations in accordance with IAS 21. As a result functional currency of three foreign operations was changed retrospectively. This change resulted in a decrease of Translation Reserve of the equity as at 31 December 2005 by LVL 745 thousand and increase in Profit attributable to the equity holders of the Company for 2005 by LVL 745 thousand. The changes did not affect the total consolidated equity as at 1 January 2004, 31 December 2004 or 31 December 2005 or profit for 2004.
- c) The Group assessed warranty provisions in accordance with IAS 37. As a result, the treatment of warranty provisions and respective reimbursements receivable from the vendors was changed retrospectively so that both amounts were shown gross in assets and liabilities. This change resulted in an increase of Trade and other receivables at 31 December 2004 by LVL 1,157 thousand and an increase of Provisions at 31 December 2004 by LVL 1,157 thousand. The changes did not affect the total consolidated equity as at 1 January 2004, 31 December 2004 or profit for 2004. Trade and other receivables at 31 December 2005 increased by LVL 1,791 thousand and Provisions at 31 December 2005 increased by LVL 1,791 thousand. The changes did not affect the total consolidated equity as at 1 January 2005, 31 December 2005 or profit for 2005.

The transition to IFRS did not have any material impact on consolidated cash flow statements for 2004 and 2005. There were no material differences in classification of items of the financial statements prepared in accordance with Latvian GAAP and those prepared in accordance with IFRS.

## Notes to the consolidated financial statements (continued)

### 5.2 Reconciliations between IFRS and Latvian GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 January 2004, 31 December 2004 and 31 December 2005. The following four reconciliations provide details of the impact of the transition on:

- equity at 31 December 2004
- equity at 31 December 2005
- net income 31 December 2004
- net income 31 December 2005

#### Summary of equity

	Note	1 January 2004	31 December 2004	1 January 2005	31 December 2005
<b>Total equity under local GAAP</b>		9,307	13,740	13,740	24,125
Change in Translation Reserve due to change of the functional currency	5.1 (b)	-	-	-	(745)
Change in Retained Earnings due to change of the functional currency	5.1 (b)	-	-	-	745
Change of revenue recognition policy	5.1 (a)	-	-	-	(1,081)
<b>Total equity under IFRS</b>		<b>9,307</b>	<b>13,740</b>	<b>13,740</b>	<b>23,044</b>

## Notes to the consolidated financial statements (continued)

### 5.2 Reconciliations between IFRS and Latvian GAAP (continued)

#### *Reconciliation of equity at 31 December 2004*

	Note	Latvian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		263	-	263
Intangible assets		65	-	65
Deferred income tax assets		-	-	-
		<b>328</b>	<b>-</b>	<b>328</b>
<b>Current assets</b>				
Inventories	5.1 (a)	9,438	14,033	23,471
Current income tax receivable		105	-	105
Trade and other receivables	5.1 (a, c)	29,663	(12,876)	16,787
Derivative financial instruments		-	-	-
Cash and cash equivalents		1,131	-	1,131
		<b>40,337</b>	<b>1,157</b>	<b>41,494</b>
<b>Total assets</b>		<b>40,665</b>	<b>1,157</b>	<b>41,822</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Ordinary shares		6,000	-	6,000
Share premium		-	-	-
Translation reserve		77	-	77
Retained earnings		6,700	-	6,700
		<b>12,777</b>	<b>-</b>	<b>12,777</b>
<b>Minority interest in equity</b>		<b>963</b>	<b>-</b>	<b>963</b>
<b>Total equity</b>		<b>13,740</b>	<b>-</b>	<b>13,740</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings		12	-	12
Deferred income tax liabilities		9	-	9
		<b>21</b>	<b>-</b>	<b>21</b>
<b>Current liabilities</b>				
Trade and other payables		20,981	-	20,981
Current income tax liabilities		270	-	270
Borrowings		5,653	-	5,653
Derivative financial instruments		-	-	-
Provisions	5.1 (c)	-	1,157	1,157
		<b>26,904</b>	<b>1,157</b>	<b>28,061</b>
<b>Total liabilities</b>		<b>26,925</b>	<b>1,157</b>	<b>28,082</b>
<b>Total equity and liabilities</b>		<b>40,665</b>	<b>1,157</b>	<b>41,822</b>

## Notes to the consolidated financial statements (continued)

### 5.2 Reconciliations between IFRS and Latvian GAAP (continued)

#### Reconciliation of equity at 31 December 2005

	Note	Latvian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		397	-	397
Intangible assets		28	-	28
Deferred income tax assets		-	-	-
		<b>425</b>	<b>-</b>	<b>425</b>
<b>Current assets</b>				
Inventories	5.1 (a)	23,860	36,031	59,891
Current income tax receivable		96	-	96
Trade and other receivables	5.1 (a, c)	57,574	(35,321)	22,253
Derivative financial instruments		-	-	-
Cash and cash equivalents		1,475	-	1,475
		<b>83,005</b>	<b>710</b>	<b>83,715</b>
<b>Total assets</b>		<b>83,430</b>	<b>710</b>	<b>84,140</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Ordinary shares		6,877	-	6,877
Share premium		3,496	-	3,496
Translation reserve	5.1 (b)	845	(796)	49
Retained earnings	5.1 (a, b)	11,856	(285)	11,571
		<b>23,074</b>	<b>(1,081)</b>	<b>21,993</b>
<b>Minority interest in equity</b>		<b>1,051</b>	<b>-</b>	<b>1,051</b>
<b>Total equity</b>		<b>24,125</b>	<b>(1,081)</b>	<b>23,044</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings		76	-	76
Deferred income tax liabilities		7	-	7
		<b>83</b>	<b>-</b>	<b>83</b>
<b>Current liabilities</b>				
Trade and other payables		48,280	-	48,280
Current income tax liabilities		395	-	395
Borrowings		10,547	-	10,547
Derivative financial instruments		-	-	-
Provisions	5.1 (c)	-	1,791	1,791
		<b>59,222</b>	<b>1,791</b>	<b>61,013</b>
<b>Total liabilities</b>		<b>59,305</b>	<b>1,791</b>	<b>61,096</b>
<b>Total equity and liabilities</b>		<b>83,430</b>	<b>710</b>	<b>84,140</b>

## Notes to the consolidated financial statements (continued)

### 5.2 Reconciliations between IFRS and Latvian GAAP (continued)

#### *Reconciliation of net income for year ended 31 December 2004*

	Note	Latvian GAAP	Effect of transition to IFRS	IFRS
Revenue	5.1 (a)	231,373	(14,704)	216,669
Cost of sales	5.1 (a)	(222,141)	14,704	(207,437)
<b>Gross profit</b>		<b>9,232</b>	-	<b>9,232</b>
Distribution costs		(1,053)	-	(1,053)
Administrative expenses		(3,339)	-	(3,339)
Other income		375	-	375
Other expenses		(344)	-	(344)
<b>Operating profit</b>		<b>4,871</b>	-	<b>4,871</b>
Finance income		255	-	255
Finance costs		(247)	-	(247)
Finance costs – net		8	-	8
<b>Profit before income tax</b>		<b>4,879</b>	-	<b>4,879</b>
Income tax expense		(458)	-	(458)
<b>Profit for the year</b>		<b>4,421</b>	-	<b>4,421</b>
<b>Attributable to:</b>				
Equity holders of the Company		4,142	-	4,142
Minority interest		279	-	279
		<b>4,421</b>	-	<b>4,421</b>

#### *Reconciliation of net income for year ended 31 December 2005*

	Note	Latvian GAAP	Effect of transition to IFRS	IFRS
Revenue	5.1 (a)	358,290	(19,997)	338,293
Cost of sales	5.1 (a)	(343,818)	18,967	(324,851)
<b>Gross profit</b>		<b>14,472</b>	<b>(1,030)</b>	<b>13,442</b>
Distribution costs		(1,168)	-	(1,168)
Administrative expenses		(4,710)	-	(4,710)
Other income	5.1 (b)	948	745	1,693
Other expenses		(112)	-	(112)
<b>Operating profit</b>		<b>9,430</b>	<b>(285)</b>	<b>9,145</b>
Finance income		26	-	26
Finance costs		(1,112)	-	(1,112)
Finance costs – net		(1,086)	-	(1,086)
<b>Profit before income tax</b>		<b>8,344</b>	<b>(285)</b>	<b>8,059</b>
Income tax expense		(621)	-	(621)
<b>Profit for the year</b>		<b>7,723</b>	<b>(285)</b>	<b>7,438</b>
<b>Attributable to:</b>				
Equity holders of the Company		7,512	(285)	7,227
Minority interest		211	-	211
		<b>7,723</b>	<b>(285)</b>	<b>7,438</b>

## Notes to the consolidated financial statements (continued)

### 6. Segment information

#### *Geographical segments by location of customers*

The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.

At 31 December 2006, it is organized into three main geographical segments by location of customers:

- (1) The Baltic area relates to Latvia, Lithuania and Estonia
- (2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania and Croatia
- (3) The area of CIS and other countries primarily relate to Russia and Ukraine.

The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.

Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating result. Unallocated remain operating expenses of the central operation.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment results for the year ended 31 December 2006 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Total segment revenue	54,023	97,526	519,025	-	670,574
Inter-segment revenue	(18,180)	(34,382)	(261,828)	-	(314,390)
<b>Revenue</b>	<b>35,843</b>	<b>63,144</b>	<b>257,197</b>	<b>-</b>	<b>356,184</b>
Operating profit / Segment result	334	1,384	12,489	(607)	13,600
Finance income (Note 22)					1,451
Finance costs (Note 22)					(1,216)
<b>Profit before income tax</b>					<b>13,835</b>
Income tax expense				(954)	(954)
<b>Profit for the year</b>					<b>12,881</b>

The segment results for the year ended 31 December 2005 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Total segment revenue	54,798	86,773	516,524	-	658,095
Inter-segment revenue	(31,681)	(34,318)	(253,803)	-	(319,802)
<b>Revenue</b>	<b>23,117</b>	<b>52,455</b>	<b>262,721</b>	<b>-</b>	<b>338,293</b>
Operating profit / Segment result	691	1,299	7,085	70	9,145
Finance income (Note 22)					26
Finance costs (Note 22)					(1,112)
<b>Profit before income tax</b>					<b>8,059</b>
Income tax expense				(621)	(621)
<b>Profit for the year</b>					<b>7,438</b>

## Notes to the consolidated financial statements (continued)

### 6. Segment information (continued)

The segment results for the year ended 31 December 2004 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Total segment revenue	55,818	67,656	258,950	-	382,424
Inter-segment revenue	(26,771)	(28,927)	(110,057)	-	(165,755)
<b>Revenue</b>	<b>29,047</b>	<b>38,729</b>	<b>148,893</b>	<b>-</b>	<b>216,669</b>
Operating profit / Segment result	351	760	3,845	(85)	4,871
Finance income (Note 22)					255
Finance costs (Note 22)					(247)
<b>Profit before income tax</b>					<b>4,879</b>
Income tax expense				(458)	(458)
<b>Profit for the year</b>					<b>4,421</b>

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Unallocated assets comprise principally the central operations' equipment, inventory and other receivables from non-related parties. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise the central operation's borrowings and other trade payables. Capital expenditure comprises additions to equipment (Note 7) and intangible assets (Note 8).

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Year ended 31 December 2006				
	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	8,371	9,922	89,201	14,945	122,439
Liabilities	5,046	6,928	75,181	1,119	88,274
Capital expenditure (Note 8)	5	6	-	3	14
Amortisation (Note 8)	2	5	-	4	11
Capital expenditure (Note 7)	22	42	-	127	191
Depreciation (Note 7)	25	54	-	107	186

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Year ended 31 December 2005				
	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	10,053	10,557	46,698	16,832	84,140
Liabilities	7,542	8,532	37,933	7,089	61,096
Capital expenditure (Note 8)	-	5	-	4	9
Amortisation (Note 8)	1	6	-	39	46
Capital expenditure (Note 7)	24	96	-	186	306
Depreciation (Note 7)	22	55	-	89	166

## Notes to the consolidated financial statements (continued)

### 6. Segment information (continued)

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Year ended 31 December 2004				
	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	7,833	7,048	21,474	5,467	41,822
Liabilities	4,891	5,082	18,452	(343)	28,082
Capital expenditure (Note 8)	-	5	-	7	12
Amortisation (Note 8)	2	9	-	24	35
Capital expenditure (Note 7)	20	88	-	39	147
Depreciation (Note 7)	25	40	-	76	141

Some of the Group's assets are located in different geographical areas from its customers. It applies to the central operation's assets, inventory, receivables from non-related parties and cash.

The segment assets at 31 December 2006 and capital expenditure for the year then ended according to the location of assets are as follows:

	Year ended 31 December 2006				
	The Baltic	Central and Eastern Europe	CIS and other countries	Central warehouse in the Netherlands	Group
Assets	13,282	9,922	89,201	10,034	122,439
Capital expenditure (Note 8)	8	6	-	-	14
Capital expenditure (Note 7)	149	42	-	-	191

The segment assets at 31 December 2005 and capital expenditure for the year then ended according to the location of assets are as follows:

	Year ended 31 December 2005				
	The Baltic	Central and Eastern Europe	CIS and other countries	Central warehouse in the Netherlands	Group
Assets	11,272	10,557	46,698	15,613	84,140
Capital expenditure (Note 8)	4	5	-	-	9
Capital expenditure (Note 7)	210	96	-	-	306

The segment assets at 31 December 2004 and capital expenditure for the year then ended according to the location of assets are as follows:

	Year ended 31 December 2004				
	The Baltic	Central and Eastern Europe	CIS and other countries	Central warehouse in the Netherlands	Group
Assets	8,539	7,048	21,474	4,761	41,822
Capital expenditure (Note 8)	7	5	-	-	12
Capital expenditure (Note 7)	59	88	-	-	147

## Notes to the consolidated financial statements (continued)

### 7. Property, plant and equipment

	Leasehold improve- ments	Communi- cation and computer engineering	Vehicles & machinery	Other fixed assets	Total
<b>At 1 January 2004</b>					
Cost	133	217	230	224	804
Accumulated depreciation	(127)	(128)	(159)	(136)	(550)
<b>Net book amount</b>	<b>6</b>	<b>89</b>	<b>71</b>	<b>88</b>	<b>254</b>
<b>Year ended 31 December 2004</b>					
Opening net book amount	6	89	71	88	254
Exchange differences	-	1	3	8	12
Additions	-	45	12	90	147
Disposals (Note 26)	-	-	(9)	-	(9)
Depreciation charge (Note 19)	(2)	(57)	(36)	(46)	(141)
<b>Closing net book amount</b>	<b>4</b>	<b>78</b>	<b>41</b>	<b>140</b>	<b>263</b>
<b>At 1 January 2005</b>					
Cost	133	263	236	322	954
Accumulated depreciation	(129)	(185)	(195)	(182)	(691)
<b>Net book amount</b>	<b>4</b>	<b>78</b>	<b>41</b>	<b>140</b>	<b>263</b>
<b>Year ended 31 December 2005</b>					
Opening net book amount	4	78	41	140	263
Exchange differences	-	3	-	(4)	(1)
Additions	10	52	122	122	306
Disposals (Note 26)	-	(4)	1	(2)	(5)
Depreciation charge (Note 19)	(7)	(60)	(40)	(59)	(166)
<b>Closing net book amount</b>	<b>7</b>	<b>69</b>	<b>124</b>	<b>197</b>	<b>397</b>
<b>At 31 December 2005</b>					
Cost	143	314	359	438	1,254
Accumulated depreciation	(136)	(245)	(235)	(241)	(857)
<b>Net book amount</b>	<b>7</b>	<b>69</b>	<b>124</b>	<b>197</b>	<b>397</b>

## Notes to the consolidated financial statements (continued)

### 7. Property, plant and equipment (continued)

	Leasehold improve- ments	Communi- cation and computer engineering	Vehicles & machinery	Other fixed assets	Total
<b>Year ended 31 December 2006</b>					
Opening net book amount	7	69	124	197	397
Exchange differences	-	1	-	8	9
Additions	-	42	122	27	191
Disposals (Note 26)	-	-	(36)	(21)	(57)
Depreciation charge (Note 19)	(7)	(64)	(83)	(32)	(186)
Reclassification	-	(3)	103	(100)	-
<b>Closing net book amount</b>	<b>-</b>	<b>45</b>	<b>230</b>	<b>79</b>	<b>354</b>
<b>At 31 December 2006</b>					
Cost or valuation	143	354	548	352	1,397
Accumulated depreciation	(143)	(309)	(318)	(273)	(1,043)
<b>Net book amount</b>	<b>-</b>	<b>45</b>	<b>230</b>	<b>79</b>	<b>354</b>

Depreciation expenses of property, plant and equipment in the amount of LVL 186 thousand (2005: LVL 166 thousand; 2004: LVL 141 thousand) have been charged in income statement and are shown in administrative expenses. During the reporting period assets were acquired on finance lease terms in amount of LVL 83 thousand (2005: LVL 145 thousand; 2004: LVL 12 thousand). The carrying amount of the assets bought on finance lease as at 31 December 2006 is LVL 155 thousand (2005: LVL 122 thousand; 2004: 28 thousand). The ownership rights on these assets will be transferred to the Group only after settling all lease liabilities (see also Note 15). Borrowing costs are not included in the carrying amount of assets.

Property, plant and equipment in the amount of LVL 53 thousand (2005: nil; 2004: nil) have been pledged to secure bank credit lines (Note 15).

Vehicles and machinery includes the following amounts where the Group is a lessee under a finance lease:

	2006	2005	2004
Cost – capitalised finance leases	262	179	50
Accumulated depreciation	(107)	(57)	(22)
<b>Net book amount</b>	<b>155</b>	<b>122</b>	<b>28</b>

Operating lease rentals amounting to LVL 328 thousand (2005: LVL 331 thousand, 2004: LVL 258 thousand) relating to the lease of tenancy are included in the income statement.

## Notes to the consolidated financial statements (continued)

### 8. Intangible assets

	Software
<b>At 1 January 2004</b>	
Cost	267
Accumulated amortisation	(181)
<b>Net book amount</b>	<b>86</b>
<b>Year ended 31 December 2004</b>	
Opening net book amount	86
Exchange differences	2
Additions	12
Disposals	-
Amortisation charge (Note 19)	(35)
<b>Closing net book amount</b>	<b>65</b>
<b>At 31 December 2004</b>	
Cost	281
Accumulated amortisation	(216)
<b>Net book amount</b>	<b>65</b>
<b>Year ended 31 December 2005</b>	
Opening net book amount	65
Exchange differences	-
Additions	9
Disposals	-
Amortisation charge (Note 19)	(46)
<b>Closing net book amount</b>	<b>28</b>
<b>At 31 December 2005</b>	
Cost	290
Accumulated amortisation	(262)
<b>Net book amount</b>	<b>28</b>
<b>Year ended 31 December 2006</b>	
Opening net book amount	28
Exchange differences	-
Additions	14
Amortisation charge (Note 19)	(11)
<b>Closing net book amount</b>	<b>31</b>
<b>At 31 December 2006</b>	
Cost	304
Accumulated amortisation	(273)
<b>Net book amount</b>	<b>31</b>

Amortisation expenses of intangible assets in the amount of LVL 11 thousand (2005: LVL 46 thousand; 2004: LVL 35 thousand) have been charged in income statement and are shown in administrative expenses.

Intangible assets in the amount of LVL 9 thousand (2005: nil; 2004: nil) have been pledged to secure bank credit lines (Note 15).

## Notes to the consolidated financial statements (continued)

### 9. Derivative financial instruments

Derivatives are classified as current assets or liabilities since these are classified as trading financial instruments.

The Group has interest rate collar through two contracts (swap and floor option) with outstanding notional amount at 31 December 2006 LVL 16,080 thousand (2005: LVL nil; 2004: LVL nil). According to the conditions of the contract the Group swaps floating LIBOR interest to fixed interest rate of 5.75% and additionally has sold floor interest rate option at 5.52%. The maturity of the contracts is 25 July 2008. The change in fair value recognised in the profit or loss that arises from the interest rate swap amounts to a loss of LVL 154 thousand (2005: LVL nil; 2004: LVL nil) (Note 22). The change in fair value recognised in the profit or loss that arises from the interest rate floor option amounts to a gain of LVL 114 thousand (2005: LVL nil; 2004: LVL nil) (Note 22).

The Group has no outstanding currency forward contracts at 31 December 2006 or 2005 or 2004.

	2006		2005		2004	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swap	-	154	-	-	-	-
Interest rate floor option	114	-	-	-	-	-
	<b>114</b>	<b>154</b>	-	-	-	-

### 10. Trade and other receivables

	2006	2005	2004
Trade receivables	40,614	19,145	14,785
Less: provision for impairment of trade receivables	(175)	(242)	(119)
Trade receivables – net	<b>40,439</b>	<b>18,903</b>	<b>14,666</b>
VAT receivable	848	726	229
Personal income tax receivable	8	8	8
Other tax receivable in foreign countries	542	661	682
Prepayments	338	200	123
Other debtors	1,813	1,755	1,079
	<b>43,988</b>	<b>22,253</b>	<b>16,787</b>

Trade receivables in the amount of LVL 83,341 thousand (2005: LVL 48,760 thousand; 2004: LVL 26,153 thousand) have been pledged to secure bank credit lines (Note 15).

The ageing of impaired receivables is as follows:

	2006	2005	2004
3 to 6 month	17	38	16
Over 6 month	167	223	111
	<b>184</b>	<b>261</b>	<b>127</b>

As at 31 December 2006, trade receivables of LVL 184 thousand (2005: LVL 261 thousand; 2004: LVL 127 thousand) were impaired and provided for. The amount of the provision was LVL 175 thousand (2005: LVL 242 thousand; 2004: LVL 119 thousand).

## Notes to the consolidated financial statements (continued)

### 10. Trade and other receivables (continued)

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

	2006	2005	2004
<b>At 1 January</b>	242	119	193
Impairment charge	175	123	83
Receivables written off during the year as uncollectible	(242)	-	(157)
<b>At 31 December</b>	<b>175</b>	<b>242</b>	<b>119</b>

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

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2006	2005	2004
LVL	6,215	4,909	3,975
USD	30,922	10,518	6,836
RON	1,305	1,094	687
LTL	1,803	1,965	1,854
SKK	1,686	1,857	1,084
Other currencies	2,057	1,910	2,351
	<b>43,988</b>	<b>22,253</b>	<b>16,787</b>

### 11. Inventories

	2006	2005	2004
Trade inventory	76,687	59,885	23,446
Prepayments for trade inventory	23	6	25
	<b>76,710</b>	<b>59,891</b>	<b>23,471</b>

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. As such estimates are continuously evaluated, it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs. Write-downs for damaged and missing inventory is LVL 560 thousand (2005: LVL 227 thousand; 2004: LVL 278 thousand) are charged to distribution costs in the income statement (Note 19).

The cost of inventories recognised as expense and included in cost of sales amounted to LVL 335,783 thousand (2005: LVL 324,851 thousand; 2004: LVL 207,437 thousand). Inventory in the amount of LVL 16,866 thousand (2005: LVL 15,948 thousand; 2004: LVL 5,176 thousand) have been pledged to secure bank credit lines (Note 15).

Of the total inventories consignment inventories as at 31 December 2006 was LVL 58,175 thousand (2005: LVL 36,035 thousand; 2004: 14,033 thousand), see Note 4(f).

## Notes to the consolidated financial statements (continued)

### 12. Cash and cash equivalents

	2006	2005	2004
Cash at bank	1,146	1,468	1,101
Cash on hand	17	7	30
	<b>1,163</b>	<b>1,475</b>	<b>1,131</b>

The effective interest rate on the cash deposits as at 31 December 2006 was 1.4% (2005: 1.8%; 2004: 1.3%).

### 13. Share capital

	Number of shares (thousands)	Ordinary shares	Share premium	Total
<b>At 1 January 2004</b>	<b>6,000</b>	<b>6,000</b>	-	<b>6,000</b>
- Proceeds from shares issued	-	-	-	-
<b>At 31 December 2004</b>	<b>6,000</b>	<b>6,000</b>	-	<b>6,000</b>
<b>At 1 January 2005</b>	<b>6,000</b>	<b>6,000</b>	-	<b>6,000</b>
- Proceeds from shares issued	877	877	3,496	4,373
<b>At 31 December 2005</b>	<b>6,877</b>	<b>6,877</b>	<b>3,496</b>	<b>10,373</b>
<b>At 1 January 2006</b>	<b>6,877</b>	<b>6,877</b>	<b>3,496</b>	<b>10,373</b>
- Proceeds from shares issued	-	-	-	-
<b>At 31 December 2006</b>	<b>6,877</b>	<b>6,877</b>	<b>3,496</b>	<b>10,373</b>

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2005: 6,000 thousand shares; 2004: 6,000 thousand shares) with a par value of LVL 1 per share (2005: LVL 1 per share, 2004: LVL 1 per share). All issued shares are fully paid. There are no share options in any of the years presented. On 11 August 2005 877 thousand shares at par value of LVL 1 per share were issued. Total issue price was LVL 4,373 thousand. All issued shares were purchased by cash contribution.

### 14. Trade and other payables

	2006	2005	2004
Trade payables	49,300	47,285	19,860
Social security and other taxes	789	832	833
Unpaid dividends	-	50	-
Other	206	12	238
Accrued expenses	1,320	101	50
	<b>51,615</b>	<b>48,280</b>	<b>20,981</b>

## Notes to the consolidated financial statements (continued)

### 14. Trade and other payables (continued)

The carrying amounts of the Company's trade payables are denominated in the following currencies:

	2006	2005	2004
LVL	244	85	103
USD	47,099	44,390	17,222
EUR	742	998	1,673
SKK	661	1,325	353
SIT	40	116	82
HRK	244	127	206
Other currencies	270	244	221
	<b>49,300</b>	<b>47,285</b>	<b>19,860</b>

### 15. Borrowings

	2006	2005	2004
<b>Non-current</b>			
Finance lease liabilities	107	76	12
	<b>107</b>	<b>76</b>	<b>12</b>
<b>Current</b>			
Bank borrowings	33,500	9,970	5,385
Finance lease liabilities	57	39	14
Other borrowings	232	538	254
	<b>33,789</b>	<b>10,547</b>	<b>5,653</b>
<b>Total borrowings</b>	<b>33,896</b>	<b>10,623</b>	<b>5,665</b>

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

	2006	2005	2004
LVL	-	520	254
USD	31,494	7,607	4,087
EUR	1,948	2,089	1,050
LTL	208	-	-
SIT	231	18	-
SKK	11	-	-
HRK	-	264	101
EEK	4	117	173
RON	-	8	-
	<b>33,896</b>	<b>10,623</b>	<b>5,665</b>

The effective interest rate on the LVL denominated borrowings as at 31 December was 4.65% and 6.50% in 2005 and 2004 respectively. The effective interest rate on the USD denominated borrowings as at 31 December 2006 was 6.22% (2005: 5.12%; 2004: 4.62%). The effective interest rate on the EUR denominated borrowings as at 31 December 2006 was 5.07 % (2005: 3.88%; 2004: 4.03%).

## Notes to the consolidated financial statements (continued)

### 15. Borrowings (continued)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2006	2005	2004
6 months or less	31,498	7,540	4,430
6-12 months	2,291	3,007	1,223
1-5 years	107	76	12
	<b>33,896</b>	<b>10,623</b>	<b>5,665</b>

#### Bank borrowings

The Group has the following bank borrowings:

	2006	2005	2004
Credit line from AS DnB Nord Banka (Latvia)	29,975	-	-
Credit line from AS SEB Latvijas Unibanka (Latvia)	-	6,183	3,693
Loan from Novoljubljanska bank (Slovenia)	-	323	183
Loan from SKB bank (Slovenia)	-	618	-
Credit line from Všeobecná uverova banka (Slovakia)	-	1,424	100
Credit line from Ľudová banka (Slovakia)	1,193	-	-
Credit line from AB Vilniaus Bankas (Lithuania)	-	658	434
Credit line from Vereins und Westbank Vilniaus skyrius (Lithuania)	-	375	485
Credit line from DNB Nord (Lithuania)	2,003	-	-
Credit line from AS Eesti Uhispank (Estonia)	3	117	173
Credit line from Hypo Alpe-Adria-Bank d.d (Croatia)	-	264	101
Credit line from HVB (Romania)	325	8	216
Credit cards	1	-	-
	<b>33,500</b>	<b>9,970</b>	<b>5,385</b>

Most of the borrowings are provided in a form of bank credit lines amounting to LVL 33,500 thousand (2005: LVL 9,970 thousand; 2004: LVL 5,385 thousand). Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 7, 8, 10 and 11). The fair value of current borrowings approximates their carrying amount, as they bear floating interest rates and the impact of discounting is not significant. The effective interest rate on the bank borrowings as at 31 December 2006 was 6.15% (2005: 4.99%; 2004: 4.63%).

The Group has the following undrawn borrowing facilities:

	31.12.2006	31.12.2005	31.12.2004
Credit line limit	35,206	11,614	8,058
Credit line used	(33,500)	(9,970)	(5,385)
	<b>1,706</b>	<b>1,644</b>	<b>2,673</b>

## Notes to the consolidated financial statements (continued)

### 15. Borrowings (continued)

#### *Finance leases*

The present value of finance lease liabilities is as follows:

	2006	2005	2004
No later than 1 year	57	39	14
Later than 1 year and no later than 5 years	107	76	12
	<b>164</b>	<b>115</b>	<b>26</b>
Finance lease liabilities – minimum lease payments:			
No later than 1 year	59	41	14
Later than 1 year and no later than 5 years	113	80	13
	<b>172</b>	<b>121</b>	<b>27</b>
Future finance charges on finance costs	(8)	(6)	(1)
Present value of finance lease liabilities	<b>164</b>	<b>115</b>	<b>26</b>

The effective interest rate on the finance leases as at 31 December 2006 was 4.55% (2005: 3.97%; 2004: 5.27%).

#### *Other borrowings*

The Group has the following other borrowings:

	2006	2005	2004
<b>Short-term portion</b>			
Factoring	-	520	254
Borrowing from related party (see Note 27)	232	18	-
	<b>232</b>	<b>538</b>	<b>254</b>

The Company has no factoring arrangements for receivables at the balance sheet date. The effective interest rate on the factoring as at 31 December was 4.65% and 6.50% in 2005 and 2004 respectively.

The effective interest rate on the loan from related party as at 31 December 2006 was 3.40% (2005: 3.73%; 2004: nil).

### 16. Provisions

	2006	2005	2004
<b>Beginning of year</b>	1,791	1,157	1,004
Charged / (credited) to the income statement:			
– Additional provisions	1,145	1,466	1,018
– Used during year	(1,020)	(832)	(865)
<b>End of year</b>	<b>1,916</b>	<b>1,791</b>	<b>1,157</b>

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

## Notes to the consolidated financial statements (continued)

### 17. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006	2005	2004
Deferred income tax assets:			
– Deferred income tax asset to be recovered after more than 12 months	(7)	-	-
– Deferred income tax asset to be recovered within 12 months	(3)	-	-
	<b>(10)</b>	<b>-</b>	<b>-</b>
Deferred income tax liabilities:			
– Deferred income tax liability to be recovered after more than 12 months	4	6	8
– Deferred income tax liability to be recovered within 12 months	(2)	1	1
	<b>2</b>	<b>7</b>	<b>9</b>
Deferred income tax liabilities (net)	<b>(8)</b>	<b>7</b>	<b>9</b>

The gross movement on the deferred income tax account is as follows:

	2006	2005	2004
<b>Beginning of the year</b>	<b>7</b>	<b>9</b>	<b>13</b>
Net gain on foreign exchange	(2)	-	-
Income statement charge (Note 23)	(13)	(2)	(4)
<b>End of the year</b>	<b>(8)</b>	<b>7</b>	<b>9</b>

#### Deferred tax liabilities and assets

	Accelerated tax depreciation	Other	Total
<b>At 1 January 2004</b>	<b>14</b>	<b>(1)</b>	<b>13</b>
Credited to the income statement	(2)	(2)	(4)
<b>At 31 December 2004</b>	<b>12</b>	<b>(3)</b>	<b>9</b>
<b>At 1 January 2005</b>	<b>12</b>	<b>(3)</b>	<b>9</b>
Charged / (credited) to the income statement	3	(5)	(2)
<b>At 31 December 2005</b>	<b>15</b>	<b>(8)</b>	<b>7</b>
<b>At 1 January 2006</b>	<b>15</b>	<b>(8)</b>	<b>7</b>
Credited to the income statement	(13)	(2)	(15)
<b>At 31 December 2006</b>	<b>2</b>	<b>(10)</b>	<b>(8)</b>

Deferred income tax liabilities of LVL 1,699 thousand (2005: LVL 698 thousand; 2004: LVL 217 thousand) have not been recognized for the income tax that would be payable on the unremitted earnings of certain subsidiaries. The respective unremitted earnings totaled LVL 11,333 thousand at 31 December 2006 (2005: LVL 4,657 thousand, 2004: LVL 1,449 thousand).

The Group did not recognise deferred income tax assets of LVL 75 thousand at 31 December 2006 (2005: LVL 39 thousand, 2004: nil) in respect of losses amounting to LVL 496 thousand (2005: LVL 229 thousand, 2004: nil) that can be carried forward against future taxable income.

## Notes to the consolidated financial statements (continued)

### 18. Revenue

	2006	2005	2004
Desktop components	208,564	226,113	171,782
Notebooks	70,179	42,393	8,682
Monitors	37,938	35,845	12,214
Peripherals	8,237	7,672	3,625
Consumer and multimedia	14,153	10,867	5,209
Solution products	17,113	15,403	15,157
	<b>356,184</b>	<b>338,293</b>	<b>216,669</b>

### 19. Expenses by nature

	2006	2005	2004
Trade inventory sold	335,783	324,851	207,437
Employee benefit expense	3,154	2,625	1,770
Depreciation and amortisation charges (Notes 7, 8)	197	212	176
Transportation expenses	416	564	431
Advertising costs	206	254	200
Rent and office maintenance expenses	470	507	378
Professional fees	214	354	88
Write-off of damaged goods	560	227	278
Other expenses	1,365	1,135	1,071
	<b>342,365</b>	<b>330,729</b>	<b>211,829</b>

### 20. Employee benefit expenses

	2006	2005	2004
Wages and salaries	2,482	1,885	1,186
Social security costs	571	485	332
Other employment benefits	101	255	252
	<b>3,154</b>	<b>2,625</b>	<b>1,770</b>

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

In accordance with the legislation of respective countries 30.17% (2005: 30.3%; 2004: 30.37%) of the Social security costs are used to fund the state defined contribution pension systems.

### 21. Other income

	2006	2005	2004
Income from services provided	1,225	791	369
Gain from disposal of fixed assets	8	14	6
Other income	101	888	-
	<b>1,334</b>	<b>1,693</b>	<b>375</b>

## Notes to the consolidated financial statements (continued)

### 22. Finance income and costs

	2006	2005	2004
Interest expense:			
– Bank borrowings	(1,047)	(496)	(243)
– Other interests	(15)	(8)	(4)
Loss from changes in the fair value of derivative financial instruments (Note 9)	(154)	-	-
Net losses on foreign exchange	-	(608)	-
Finance costs	<b>(1,216)</b>	<b>(1,112)</b>	<b>(247)</b>
Finance income:			
– Interest income on short-term bank deposits	5	2	1
– Received penalties	18	16	13
– Other interest income	6	8	3
Gain on changes in the fair value of derivative financial instruments (Note 9)	114	-	-
Net gain on foreign exchange	1,308	-	238
Finance income	<b>1,451</b>	<b>26</b>	<b>255</b>
Net finance costs	<b>235</b>	<b>(1,086)</b>	<b>8</b>

### 23. Income tax expense

	2006	2005	2004
Current tax	967	623	462
Deferred tax (Note 17)	(13)	(2)	(4)
	<b>954</b>	<b>621</b>	<b>458</b>

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

	13,835	8,059	4,879
Profit before tax			
Tax at the domestic rates applicable to profits in the country concerned	952	629	475
Income not subject to tax	(24)	(26)	(33)
Expenses not deductible for tax purposes	52	59	42
Tax discount for donations	(26)	(41)	(26)
Tax charge	<b>954</b>	<b>621</b>	<b>458</b>

The weighted average applicable tax rate was 6.9% (2005: 7.7%; 2004: 9.4%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

## Notes to the consolidated financial statements (continued)

### 24. Earnings per share

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

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There were no treasury shares.

	2006	2005	2004
Profit attributable to equity holders of the Company	12,501	7,227	4,142
Weighted average number of ordinary shares in issue (thousands)	6,877	6,343	6,000
Basic earnings per share (LVL per share)	1.82	1.14	0.69

### 25. Dividends per share

The dividends paid in 2006 were LVL 2,092 thousand (LVL 0.30 per share); 2005: LVL 2,356 thousand (LVL 0.39 per share); 2004: nil. A dividend in respect of the year ended 31 December 2006 of LVL 0.58 per share, amounting to a total dividend of LVL 4,000 thousand, is to be proposed at the Annual General Meeting on 30 May 2007. These financial statements do not reflect this dividend payable.

### 26. Cash used in operations

	2006	2005	2004
Profit before income tax	13,835	8,059	4,879
Adjustments for:			
– Depreciation (Note 7)	186	166	141
– Amortisation (Note 8)	11	46	35
– Profit on disposal of property, plant and equipment (see below)	(8)	(14)	-
– Interest and similar income	(143)	(26)	(255)
– Interest and similar expenses	1,216	1,112	247
Changes in working capital (excluding the effects of exchange differences on consolidation):			
– Inventories	(16,819)	(51,198)	(16,595)
– Trade and other receivables	(21,417)	9,905	3,257
– Trade and other payables	3,350	26,828	7,590
Cash used in operations	(19,789)	(5,122)	(701)

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2006	2005	2004
Net book amount (Note 7)	57	5	9
Profit on disposal of property, plant and equipment	8	14	-
Proceeds from disposal of property, plant and equipment	65	19	9

## Notes to the consolidated financial statements (continued)

### 27. Related-party transactions

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

	% for Share Capital		
	2006	2005	2004
Egons Mednis, President of Company	9.6	9.7	13.0
Andris Putans, Chairman of the Council	9.8	9.9	13.3
Eriks Strods, Member of the Council	9.1	9.3	12.4
Kaspars Viskints, Member of the Council	9.8	9.9	13.3
Knightsford Corporation LLC, USA	-	-	24.0
System Experts LLC, USA	-	-	24.0
IT Investīcijas, A/S, domiciled in Latvia	35.2	35.7	-
East Capital Asset Management AB, domiciled in Sweden	8.8	8.5	-
Amber Trust II S.C.A., domiciled in Luxemburg	17.7	17.0	-

#### (a) Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of LVL 367 thousand (2005: LVL 433 thousand; 2004: LVL 382 thousand).

	2006	2005	2004
The Board members' remuneration:			
- salary expenses	301	350	302
- social insurance	66	83	80
	<b>367</b>	<b>433</b>	<b>382</b>

#### (b) Transactions with related parties:

The payables to related parties arise mainly from operating lease transactions. Particularly, rental services LVL 124 thousand (2005: LVL 100 thousand; 2004: LVL 77 thousand) were bought from an entity controlled by some of the shareholders of the Company. The outstanding accounts payable as of the balance sheet date are LVL 4 thousand (2005: LVL 2 thousand; 2004: LVL 2 thousand).

The Group's borrowings include a loan advanced from ELBACOMP D.O.O. to ELKOTEX D.O.O in the amount of LVL 232 thousand (2005: LVL 18 thousand; 2004: nil) (see Note 15). The director of ELKOTEX D.O.O has controlling interest in ELBACOMP D.O.O. The loan has 3.40% (2005: 3.73%) annual interest rate.

There were no sales to related parties in any of the years presented. There were no receivables from or loans or guarantees issued to related parties at any balance sheet date presented.

### 28. Commitments

The Group leases various offices and warehouses under cancellable operating lease agreements. The Group is required to give one month notice for the termination of these agreements.

The Group has no capital commitments at the balance sheet date.

### 29. Issued guarantees and pledges

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantee in the amount of USD 4,000 thousand in favour of INTEL INTERNATIONAL B.V. Guarantee serves as a partial security of A/S ELKO GRUPA purchases on credit to INTEL INTERNATIONAL B.V.

For pledges see Note 7, Note 8, Note 10, Note 11 and Note 15.

## Notes to the consolidated financial statements (continued)

### 30. Contingencies

The Latvian tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

The Company is subject to legal proceedings, in which LVL 496 thousand is claimed in receivables pertaining to the period of 2004-2006. It is management's opinion, based upon the opinions of outside legal counsel, that the Company has valid defenses to the claim, which would result in its full or partial rejection. An unfavourable resolution of this matter is not expected to have a material impact on the Company's financial condition.

The Company has used, and continue to use, a variety of third-party entities in which it does not hold any direct or indirect equity interest to facilitate the import of products into Russia and Ukraine. In the event that Russian and/or Ukrainian tax authorities choose to take a more aggressive position in their interpretation and enforcement of tax legislation, the Company might be held liable for the failure of third parties to pay customs duties and VAT and/or determine that the Company is required to pay profits tax in Russia and/or Ukraine. In such an event, the Company could be subject to penalties and charges for interest on late payments. Any estimate of a likelihood of any liability arising as a result of the Russian or Ukrainian tax enforcement, its effect on the financial position of the Group or the maximum amount cannot be reasonably assessed. Sales of products to Russian and Ukrainian customers were disclosed in Note 6.

### 31. Subsequent events

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2006.

## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders of ELKO GRUPA JSC**

#### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements on pages 3 to 38 of ELKO GRUPA JSC and its subsidiaries (together, the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

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

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

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

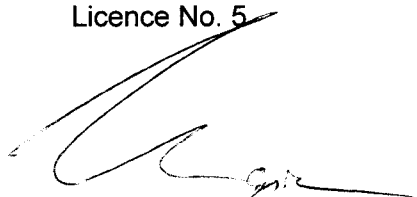
*Opinion*

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 30 to the consolidated financial statements which indicates contingent tax liability of the Group in relation to its import of products into Russia and Ukraine. The operations of the Group and its financial position may significantly be affected by changes in interpretation and enforcement of tax legislation by the Russian or Ukrainian tax authorities.

PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5



Juris Lapshe  
Certified auditor in charge  
Certificate No. 116

Member of the Board

Riga, Latvia  
15 May 2007