



## **ELKO GRUPA JSC**

Consolidated Financial Statements

For the year ended 31 December 2007

## Structure

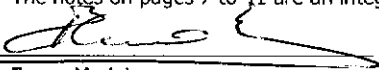
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## Consolidated balance sheet

	Note	31.12.2007	31.12.2006 Restated	31.12.2005 Restated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	534	354	397
Intangible assets	8	115	31	28
Deferred income tax assets	17	13	10	-
		<b>662</b>	<b>395</b>	<b>425</b>
<b>Current assets</b>				
Inventories	11	68,911	76,710	59,891
Current income tax receivable		39	69	96
Trade and other receivables	10	101,523	42,288	20,591
Derivative financial instruments	9	-	114	-
Cash and cash equivalents	12	2,500	1,163	1,475
		<b>172,973</b>	<b>120,344</b>	<b>82,053</b>
<b>Total assets</b>		<b>173,635</b>	<b>120,739</b>	<b>82,478</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the Company</b>				
Ordinary shares	13	6,877	6,877	6,877
Share premium	13	3,496	3,496	3,496
Translation reserve		(2,727)	(1,178)	49
Retained earnings		33,537	23,458	11,571
		<b>41,183</b>	<b>32,653</b>	<b>21,993</b>
<b>Minority interest in equity</b>		<b>1,943</b>	<b>1,512</b>	<b>1,051</b>
<b>Total equity</b>		<b>43,126</b>	<b>34,165</b>	<b>23,044</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	15	4,699	107	76
Deferred income tax liabilities	17	11	2	7
		<b>4,710</b>	<b>109</b>	<b>83</b>
<b>Current liabilities</b>				
Trade and other payables	14	81,963	51,615	48,280
Current income tax liabilities		1,306	691	395
Borrowings	15	42,419	33,789	10,547
Derivative financial instruments	9	-	154	-
Provisions	16	111	216	129
		<b>125,799</b>	<b>86,465</b>	<b>59,351</b>
<b>Total liabilities</b>		<b>130,509</b>	<b>86,574</b>	<b>59,434</b>
<b>Total equity and liabilities</b>		<b>173,635</b>	<b>120,739</b>	<b>82,478</b>

The notes on pages 7 to 41 are an integral part of these consolidated financial statements.



Egons Mednis  
Chairman of the Board

31 March 2008

## Consolidated income statement

	Note	2007	2006 Restated	2005 Restated
Revenue	6	525,028	356,643	338,293
Cost of sales	19	(497,119)	(335,783)	(324,851)
<b>Gross profit</b>		<b>27,909</b>	<b>20,860</b>	<b>13,442</b>
Distribution costs	19	(1,614)	(1,486)	(1,168)
Administrative expenses	19	(7,080)	(5,096)	(4,710)
Other income	21	1,362	2,217	1,693
Other expenses	22	(694)	(109)	(112)
<b>Operating profit</b>		<b>19,883</b>	<b>16,386</b>	<b>9,145</b>
Finance income		81	143	26
Finance costs		(2,108)	(1,216)	(1,112)
Finance income/ (costs) – net	23	(2,027)	(1,073)	(1,086)
<b>Profit before income tax</b>		<b>17,856</b>	<b>15,313</b>	<b>8,059</b>
Income tax expense	24	(1,445)	(954)	(621)
<b>Profit for the year</b>		<b>16,411</b>	<b>14,359</b>	<b>7,438</b>
<b>Attributable to:</b>				
Equity holders of the Company		15,727	13,979	7,227
Minority interest		684	380	211
		<b>16,411</b>	<b>14,359</b>	<b>7,438</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)	25	<b>2.29</b>	<b>2.03</b>	<b>1.14</b>

The notes on pages 7 to 41 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

	Note	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Share premium	Transla- tion reserve	Retained earnings	Total		
<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	26	-	-	-	(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		-	-	(1,227)	-	(1,227)	81	(1,146)
Profit for the year		-	-	-	13,979	13,979	380	14 359
<b>Total recognized income and expense for 2006</b>		<b>-</b>	<b>-</b>	<b>(1,227)</b>	<b>13,979</b>	<b>12,752</b>	<b>461</b>	<b>13,213</b>
Dividend relating to 2005	26	-	-	-	(2,092)	(2,092)	-	(2,092)
<b>Balance at 31 December 2006</b>		<b>6,877</b>	<b>3,496</b>	<b>(1,178)</b>	<b>23,458</b>	<b>32,653</b>	<b>1,512</b>	<b>34,165</b>
<b>Balance at 1 January 2007</b>		<b>6,877</b>	<b>3,496</b>	<b>(1,178)</b>	<b>23,458</b>	<b>32,653</b>	<b>1,512</b>	<b>34,165</b>
Currency translation differences		-	-	(1,549)	-	(1,549)	(8)	(1,557)
Profit for the year		-	-	-	15,727	15,727	684	16,411
<b>Total recognized income and expense for 2007</b>		<b>-</b>	<b>-</b>	<b>(1,549)</b>	<b>15,727</b>	<b>14,178</b>	<b>676</b>	<b>14,854</b>
Dividend relating to 2006	26	-	-	-	(5,648)	(5,648)	(245)	(5,893)
<b>Balance at 31 December 2007</b>		<b>6,877</b>	<b>3,496</b>	<b>(2,727)</b>	<b>33,537</b>	<b>41,183</b>	<b>1,943</b>	<b>43,126</b>

Retained earnings are LVL 33,537 thousand (2006: LVL 23,458 thousand; 2005: LVL 11,571 thousand), of which LVL47 thousand (2006: LVL 52 thousand; 2005: LVL 62 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 7 to 41 are an integral part of these consolidated financial statements.

## Consolidated cash flows statement

	Note	2007	2006 Restated	2005 Restated
<b>Cash flows from operating activities</b>				
Cash used in operations	27	(6,367)	(19,789)	(5,122)
Interest paid	23	(1,926)	(902)	(504)
Interest received		81	29	25
Income tax paid		(794)	(646)	(510)
Net cash used in operating activities		<b>(9,006)</b>	<b>(21,308)</b>	<b>(6,111)</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(265)	(108)	(190)
Proceeds from sale of property, plant and equipment	27	34	65	19
Purchases of intangible assets		(97)	(14)	(9)
Net cash used in investing activities		<b>(328)</b>	<b>(57)</b>	<b>(180)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares	13	-	-	4,373
Proceeds from borrowings		14,380	33,752	4,868
Repayments of borrowings		(1,270)	(10,562)	(170)
Dividends paid to Company's shareholders	26	(2,194)	(2,092)	(2,356)
Dividends paid to Minority shareholders		(245)	(50)	(100)
Net cash generated from financing activities		<b>10,671</b>	<b>21,048</b>	<b>6,615</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>1,337</b>	<b>(317)</b>	<b>324</b>
Cash and cash equivalents at beginning of the year		1,163	1,475	1,131
Exchange gains / (losses) on cash		-	5	20
<b>Cash and cash equivalents at end of the year</b>	12	<b>2,500</b>	<b>1,163</b>	<b>1,475</b>

The notes on pages 7 to 41 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 31 March 2008 and signed on its behalf by the Chairman of the Board Egons Mednis.

Shareholders have the right to make amendments to the financial statements approved by the Board.

The Company has the following participating interest in the subsidiaries:

Name	Country	Participating interest in share capital of subsidiaries		
		31.12.2007	31.12.2006	31.12.2005
		%	%	%
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%	70%	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%
Alma Limited	Russia	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 by 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.

These consolidated financial statements are the first financial statements prepared using U.S. dollars (USD) as the functional currency of the Group. The date of transition to USD as the functional currency is 1 January 2007. The change in the functional currency is related to management's decision to review the interpretation of primary economic environment where the Group operates.

Latvian Lats (LVL) is the reporting currency of the Group in accordance with legislation of the Republic of Latvia. All amounts in the consolidated financial statements including note disclosures are stated in thousands, rounded to the nearest thousand, unless stated otherwise.

## 2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires management to make 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.

## 2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IAS 1 Amendment – Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

### *IFRS 7, Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial instruments. While there has been no effect on the financial position or results, comparative information has been revised where needed.

### *IAS 1, Presentation of Financial Statements*

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The new disclosure is shown in Note 15.

### *IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. The interpretation had no impact on the financial position or performance of the Group.

### *IFRIC 9, Reassessment of Embedded Derivatives.*

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. The interpretation had no impact on the financial position or performance of the Group.

### *IFRIC 10, Interim Financial Reporting and Impairment*

IFRIC 10 prohibits the impairment losses recognized 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 interpretation had no impact on the financial position or performance of the Group.



## Notes to the consolidated financial statements (continued)

### 2.2 Changes in accounting policy and disclosures (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 31 December 2007 or later periods that the Group has not adopted early:

#### *IFRS 2 Share-based payments – Vesting Conditions and Cancellations (effective for financial years beginning on or after 1 July 2009)*

IFRS 2 amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. This standard is not relevant to the Group.

#### *IFRS 3R, Business Combinations (effective for financial years beginning on or after 1 July 2009)*

IFRS 3R (as issued in 2004) and comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and the future reported results. IFRS 3R is not relevant to the Group's operations.

#### *IAS 1, Revised Presentation of Financial Statements*

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

#### *IFRS 8, Operating Segments (effective for financial years beginning on or after 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.

#### *IAS 23, Borrowing Costs (effective for financial years beginning on or after 1 January 2009).*

IAS 23 requires the capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. Upon implementation of the standard, the impact on the financial statements is expected to be immaterial.

#### *IAS 27R, Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009)*

The objective of IAS 27R is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. No impact on the financial statements is to be expected upon the implementation of the IAS 27.

#### *Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for financial years beginning on or after 1 January 2009).*

## Notes to the consolidated financial statements (continued)

### 2.2 Changes in accounting policy and disclosures (continued)

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

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

IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 is not relevant to the Group's operations.

*IFRIC 12, Service Concession Arrangements (effective for financial years 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. IFRIC 12 is not relevant to the Group's operations.

*IFRIC 13, Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008)*

This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

*IFRIC 14 IAS 19, The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions (effective for financial years beginning on or after 1 January 2008)*

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as no such schemes currently exist.

### 2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Group and all its subsidiaries as at 31 December each year.

#### *(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 the Group obtains control until the date that such 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.

#### *(b) Intra-Group transactions and minority interests*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated in full. 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.

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.

## Notes to the consolidated financial statements (continued)

### 2.4 Segment reporting

The Group operates in different geographical areas that are subject to different risks and returns. The only segment assessed for the Group is geographical segment.

### 2.5 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'). For the Group as a whole, the functional currency is USD dollar but the reporting currency is Latvian Lats (LVL) in accordance with legislation of the Republic of Latvia. The consolidated financial statements are presented in LVL, the Group's reporting 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.

#### *(c) Group companies*

The results and financial position of all the group entities 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.

### 2.6 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

Depreciation rates have been reviewed and deemed appropriate for the financial year ending 31. December 2007.

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.

## Notes to the consolidated financial statements (continued)

### 2.7 Intangible assets

Group's intangible assets mainly 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).

### 2.8 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.

### 2.9 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 and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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 2.12).

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 2.10). 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.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

### 2.10 Derivative financial instruments and hedging activities

The Group does not apply hedge accounting to derivative financial instruments, therefore the existing ones 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 changes in the fair value of derivative instruments are recognised immediately in the income statement. The Group's use of derivative financial instruments has been limited to interest rate swaps and interest options used to reduce the Group's exposure to changes in floating interest rates. These agreements have been terminated in November 2007.

### 2.11 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of goods comprises acquisition costs, additional expenses related to transportation, import duties 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.

## Notes to the consolidated financial statements (continued)

### 2.12 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 that is accounted for in a separate allowance account. 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.

### 2.13 Cash and cash equivalents

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

### 2.14 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.

### 2.15 Trade payables

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

### 2.16 Warranties

The Group's vendors generally warrant the products distributed by the Group and allow to return defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs incur along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience.

### 2.17 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.

### 2.18 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.

## Notes to the consolidated financial statements (continued)

### 2.18 Deferred income tax (continued)

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.

### 2.19 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.

### 2.20 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.

#### *(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.

### 2.21 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.

## Notes to the consolidated financial statements (continued)

### 2.22 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.

### 2.23 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 provide exposure 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.

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

#### *(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. As at 31 December 2007, the Group did not have any hedging agreements.

## Notes to the consolidated financial statements (continued)

### 3.1 Financial risk factors (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase / decrease in US dollar rate	Effect on equity ('000)
2007	0.484	(2,727)
2006	0.536	(1,178)
2005	0.593	49

#### (b) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's 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. During year 2007, the Group's borrowings at variable rate were predominantly denominated in the US dollars and Euro (Note 15).

The Group's use of derivative financial instruments has been limited to interest rate swaps and interest options used to reduce the Group's exposure to changes in floating interest rates. These agreements have been terminated in November (August) 2007.

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

		Increase / decrease in basis points	Effect on profit before tax ('000)
2007	USD LIBOR	+ 10	40
2007	USD LIBOR	- 10	(40)
2006	USD LIBOR	+10	32
2006	USD LIBOR	- 10	(32)
2005	USD LIBOR	+ 10	8
2005	USD LIBOR	- 10	(8)

#### (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 (Note 15 to trade and other 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.

#### (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)

### 3.1 Financial risk factors (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments:

<b>Year ended 31/12/2007</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Non-current borrowings	-	-	-	5,613	5,613
Current borrowings	-	-	45,175	-	45,175
Dividends	3,454	-	-	-	3,454
Trade and other payables	-	78,509	-	-	78,509

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2006 based on contractual undiscounted payments:

<b>Year ended 31/12/2006</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Non-current borrowings	-	-	-	113	113
Current borrowings	-	232	60,480	-	60,712
Dividends	-	-	-	-	-
Trade and other payables	-	51,615	-	-	51,615

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2005 based on contractual undiscounted payments:

<b>Year ended 31/12/2005</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Non-current borrowings	-	-	-	80	80
Current borrowings	-	538	10,942	-	11,480
Dividends	50	-	-	-	50
Trade and other payables	-	48,230	-	-	48,230

## Notes to the consolidated financial statements (continued)

### 3.1 Financial risk factors (continued)

#### (4) Legislative risk

The Company has used, and continues to use, a variety of third-party entities in which it does not hold any direct or indirect equity interest to facilitate the import of products into Russia and Ukraine. In the Eastern European countries the tax legislation and rulings are still subject to frequent change, and are consequently not as stable as the tax practices in most of the Western world countries. In the event that Russian and/or Ukrainian tax authorities choose to take a more aggressive position in their interpretation and enforcement of tax legislation, the Company might be held liable in case of a failure of a third party to comply with the interpretations of the authorities in Russia and/or Ukraine. Any estimate of a likelihood of any liability arising as a result of the Russian or Ukrainian tax enforcement, its effect on the financial position of the Group or the maximum amount cannot be reasonably assessed. Historically no such claims have arisen. Sales of products to Russian and Ukrainian customers are disclosed in Note 6.

### 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.

### 3.3 Capital management

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

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

The Group monitors capital using the following ratios:

	31.12.2007	31.12.2006	31.12.2005
<b>Consolidated financials</b>			
Equity without minority interest	41,183	32,653	21,993
Total assets	173,635	120,739	82,478
<b>Equity ratio</b>	<b>24%</b>	<b>27%</b>	<b>27%</b>
Net Debt	44,618	32,733	9,148
Total equity	43,126	34,165	23,044
<b>Net Liabilities/ Equity</b>	<b>1.0</b>	<b>1.0</b>	<b>0.4</b>
EBIT	19,964	16,529	9,171
Interest payments	2,108	1,216	1,112
<b>EBIT/Interest payments</b>	<b>9.5</b>	<b>13.6</b>	<b>8.2</b>
Total Debt	47,118	33,896	10,623
EBIT	19,964	16,529	9,171
<b>Total DEBT/EBIT</b>	<b>2.4</b>	<b>2.1</b>	<b>1.2</b>

## Notes to the consolidated financial statements (continued)

### 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 2007 amounted to LVL 3,107 thousand (2006: LVL 1,881 thousand; 2005: LVL 1,142 thousand) based on the individual vendor agreement assessment. All rebate amounts for 2007 accounted for in the financial statements are known.

#### *(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 24).

#### *(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 321 thousand (2006: LVL 128 thousand; 2005: LVL 16 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*

The Group's vendors generally warrant the products distributed by the Group and allow to return defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs are incurring along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The amount of provision with respect to warranties is disclosed in Note 16.

#### *(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).

## Notes to the consolidated financial statements (continued)

### 5. Prior period adjustments due to an error

#### 5.1 Descriptions of the prior period adjustments due to an error on the consolidated financial statements

The consolidated financial statements of the Group have been restated for the financial years ending 31 December 2005 and 2006 due to the following:

- a) During the 2007, the Group management reconsider factors used for determining its functional currency. Taken into account the economic benefits from underlying transactions, events and conditions, the Group management determined that the functional currency of the Group is USD, rather than LVL applied (the reporting currency according to the legislation of the Republic of Latvia). Based on the fact that the same factors were also effective in the previous periods, using LVL as the functional currency was an error. As a result, the consolidated financial statements for the year ended 31 December 2005 and 2006 have been restated. The impact of the change for the years ended 31 December 2005 and 2006 has been disclosed in Note 5.2.
- b) To reflect the actual nature of business, the Group has reflected the warranty provision on the net basis according to the interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. This is a change from prior year's application of the standard when warranty provision was accounted for in gross amounts in assets and liabilities. The impact on the balance sheet for the years ending 31 December 2005 and 2006 has been disclosed in the note 5.2. The changes did not affect the total consolidated equity and profit for either of the years.

#### 5.2 Effect of the prior period adjustments due to an error on the consolidated financial statements

The following reconciliations provide a quantification of the effect of the changes in accounting policy on the consolidated financial statements. The first reconciliation provides an overview of the impact on equity of the changes as at 1 January and 31 December for the years 2005 and 2006 respectively.

	Note	1 January 2005	31 December 2005	1 January 2006	31 December 2006
<b>Total equity</b> (before prior period adjustments)		13,740	23,044	23,044	34,165
Translation Reserve	5.1 (a)	-	-	-	(1,478)
Retained Earnings	5.1 (a)	-	-	-	1,478
<b>Total equity</b> (after prior period adjustments)		<b>13,740</b>	<b>23,044</b>	<b>23,044</b>	<b>34,165</b>

These adjustments have occurred due the change in the functional currency.

## Notes to the consolidated financial statements (continued)

### 5.2 Effect of the changes in accounting policy on the consolidated financial statements (continued)

The impact of the balance sheet for the years ending 31 December 2005 and 2006 is as follows:

	Note	31 December 2005	31 December 2006
<b>ASSETS</b> (before prior period adjustments)	5.1 ( b)	83,715	122,439
Reduction in Provisions		(1,662)	(1,700)
<b>ASSETS</b> (after prior period adjustments)		<b>82,053</b>	<b>120,739</b>
<b>LIABILITIES</b> (before prior period adjustments)	5.1 (b)	61,096	88,274
Reduction in Provisions		(1,662)	(1,700)
<b>LIABILITIES</b> (after prior period adjustments)		<b>59,434</b>	<b>86,574</b>

These adjustments have occurred due the change in the accounting for warranty provisions.

The impact of the income statement is as follows:

	Note	2006 before prior period adjustments	2006 prior period adjustments	2006 after prior period adjustments
Revenue		356,184	459	356,643
Other income		1,334	883	2,217
Other expenses		(1,553)	1,444	(109)
Finance income		1,451	(1,308)	143
<b>Profit for the year</b>	5.1 (a)	<b>12,881</b>	<b>1,478</b>	<b>14,359</b>

These adjustments have occurred due the change in the functional currency and relate to the exchange rate differences. There is no impact on the income statement for the year ending 31 December 2005.

## 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 2007, 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.

The segment results for the year ended 31 December 2007 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Total segment revenue	54,916	139,296	754,544	-	948,756
Inter-segment revenue	(10,438)	(49,363)	(363,927)	-	(423,728)
<b>Revenue</b>	<b>44,478</b>	<b>89,933</b>	<b>390,617</b>	<b>-</b>	<b>525,028</b>
Operating profit / Segment result	1,290	2,366	15,882	345	19,883
Finance income (Note 23)					81
Finance costs (Note 23)					(2,108)
<b>Profit before income tax</b>					<b>17,856</b>
Income tax expense				(1,445)	(1,445)
<b>Profit for the year</b>					<b>16,411</b>

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	54,482	97,526	519,025	-	671,033
Inter-segment revenue	(18,180)	(34,382)	(261,828)	-	(314,390)
<b>Revenue</b>	<b>36,302</b>	<b>63,144</b>	<b>257,197</b>	<b>-</b>	<b>356,643</b>
Operating profit / Segment result	334	1,384	14,618	50	16,386
Finance income (Note 23)					143
Finance costs (Note 23)					(1,216)
<b>Profit before income tax</b>					<b>15,313</b>
Income tax expense				(954)	(954)
<b>Profit for the year</b>					<b>14,359</b>

## Notes to the consolidated financial statements (continued)

### 6. Segment information (continued)

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 23)					26
Finance costs (Note 23)					(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>

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 2007 and capital expenditure for the year then ended are as follows:

	Year ended 31 December 2007				
	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	9,336	13,912	127,823	22,564	173,635
Liabilities	3,487	9,909	107,733	9,380	130,509
Capital expenditure (Note 8)	-	59	-	38	97
Amortisation (Note 8)	3	6	-	4	13
Capital expenditure (Note 7)	7	119	-	251	377
Depreciation (Note 7)	9	63	-	114	186

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	6,671	9,922	89,201	14,945	120,739
Liabilities	3,346	6,928	75,181	1,119	86,574
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

## Notes to the consolidated financial statements (continued)

### 6. Segment information (continued)

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	8,391	10,557	46,698	16,832	82,478
Liabilities	5,880	8,532	37,933	7,089	59,434
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

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 2007 and capital expenditure for the year then ended according to the location of assets are as follows:

	Year ended				
	31 December 2007				
	The Baltic	Central and Eastern Europe	CIS and other countries	Central warehouse in the Netherlands	Group
Assets	14,962	13,912	127,823	16,938	173,635
Capital expenditure (Note 8)	38	59	-	-	97
Capital expenditure (Note 7)	258	119	-	-	377

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	11,582	9,922	89,201	10,034	120,739
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	9,610	10,557	46,698	15,613	82,478
Capital expenditure (Note 8)	4	5	-	-	9
Capital expenditure (Note 7)	210	96	-	-	306



## Notes to the consolidated financial statements (continued)

### 7. Property, plant and equipment

	Leasehold improvements	Communi- cation and computer engineering	Vehicles & machinery	Other fixed assets	Total
<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 27)	-	(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 1 January 2006</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>
<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 27)	-	-	(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	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>

## Notes to the consolidated financial statements (continued)

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

	Leasehold improvements	Communi- cation and computer engineering	Vehicles & machinery	Other fixed assets	Total
<b>Year ended 31 December 2007</b>					
Opening net book amount	-	45	230	79	354
Exchange differences	-	-	(2)	9	7
Additions	16	124	193	44	377
Disposals (Note 27)	-	(1)	(9)	(8)	(18)
Depreciation charge (Note 19)	(6)	(57)	(97)	(26)	(186)
Reclassification	-	-	9	(9)	-
<b>Closing net book amount</b>	<b>10</b>	<b>111</b>	<b>324</b>	<b>89</b>	<b>534</b>
<b>At 31 December 2007</b>					
Cost or valuation	159	477	739	388	1,763
Accumulated depreciation	(149)	(366)	(415)	(299)	(1,229)
<b>Net book amount</b>	<b>10</b>	<b>111</b>	<b>324</b>	<b>89</b>	<b>534</b>

Depreciation expenses of property, plant and equipment in the amount of LVL 186 thousand (2006: LVL 186 thousand; 2005: LVL 166 thousand) have been charged in income statement and are shown in administrative expenses. The part of the carrying value of machinery and equipment held under leases.

During the reporting period machinery were acquired on finance lease terms in amount of LVL 122 thousand (2006: LVL 83 thousand; 2005: LVL 145 thousand). The carrying amount of the machinery bought on finance lease as at 31 December 2007 is LVL 205 thousand (2006: LVL 155 thousand; 2005: 122 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 131 thousand (2006: LVL 53 thousand; 2005: 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:

	2007	2006	2005
Cost – capitalised finance leases	324	262	179
Accumulated depreciation	(119)	(107)	(57)
<b>Net book amount</b>	<b>205</b>	<b>155</b>	<b>122</b>

Operating lease rentals amounting to LVL 397 thousand (2006: LVL 328 thousand, 2005: LVL 331 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 2005</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
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>
<b>Year ended 31 December 2007</b>	
Opening net book amount	31
Exchange differences	-
Additions	97
Amortisation charge (Note 19)	(13)
<b>Closing net book amount</b>	<b>115</b>
<b>At 31 December 2007</b>	
Cost	401
Accumulated amortisation	(286)
<b>Net book amount</b>	<b>115</b>

Amortisation expenses of intangible assets in the amount of LVL 13 thousand (2006: LVL 11 thousand; 2005: LVL 46 thousand) have been charged in income statement and are shown in administrative expenses.

Intangible assets in the amount of LVL 43 thousand (2006: LVL 9 thousand; 2005: 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 2007 LVL nil (2006: LVL 16,080 thousand; 2005: 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 change in fair value recognised in the profit or loss that arises from the interest rate swap amounts to a loss of LVL 20 thousand (2006: LVL 154 thousand; 2005: LVL nil) (Note 23). The maturity of the contracts was 25 July 2008. These agreements have been terminated in November 2007. All settlements have been made.

	2007		2006		2005	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swap	-	-	-	154	-	-
Interest rate floor option	-	-	114	-	-	-
	-	-	114	154	-	-

### 10. Trade and other receivables

	2007	2006	2005
Trade receivables	98,685	40,614	19,145
Less: provision for impairment of trade receivables	(120)	(175)	(242)
Trade receivables – net	98,565	40,439	18,903
VAT receivable	294	848	726
Personal income tax receivable	-	8	8
Other tax receivable in foreign countries	1,873	542	661
Prepayments	549	338	200
Other debtors	242	113	93
	101,523	42,288	20,591

Trade receivables in the amount of LVL 116,721 thousand (2005: LVL 83,341 thousand; 2004: LVL 48,760 thousand) have been pledged to secure bank credit lines (Note 15).

Trade receivables are non-interest bearing and are generally on 30 days' terms.

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

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 day	30-60 day	60-90 day	90-120 day	>120 day
2007	98,565	87,479	8,743	1,897	382	27	37
2006	40,439	35,046	4,860	479	7	8	39
2005	18,903	13,425	5,124	293	12	17	32

## Notes to the consolidated financial statements (continued)

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

The ageing of impaired receivables is as follows:

	2007	2006	2005
3 to 6 month	52	17	38
Over 6 month	94	167	223
	<b>146</b>	<b>184</b>	<b>261</b>

As at 31 December 2007, trade receivables at nominal value of LVL 146 thousand (2006: LVL 184 thousand; 2005: LVL 261 thousand) were impaired and provided for. The amount of the provision was LVL 120 thousand (2006: LVL 175 thousand; 2005: LVL 242 thousand).

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

	2007	2006	2005
<b>At 1 January</b>	175	242	119
Impairment charge (individual basis)	120	175	123
Receivables written off during the year as uncollectible	(175)	(242)	-
<b>At 31 December</b>	<b>120</b>	<b>175</b>	<b>242</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:

	2007	2006	2005
LVL	7,589	4,515	3,247
USD	84,528	30,922	10,518
RON	2,882	1,305	1,094
LTL	2,115	1,803	1,965
SKK	1,415	1,686	1,857
Other currencies	2,994	2,057	1,910
	<b>101,523</b>	<b>42,288</b>	<b>20,591</b>

## Notes to the consolidated financial statements (continued)

### 11. Inventories

	2007	2006	2005
Trade inventory (net realisable value)	54,150	71,215	49,643
Trade inventory in transit	14,710	5,472	10,242
Prepayments for trade inventory	51	23	6
	<b>68,911</b>	<b>76,710</b>	<b>59,891</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 355 thousand (2006: LVL 560 thousand; 2005: LVL 227 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 497,119 thousand (2006: LVL 335,783 thousand; 2005: LVL 324,851 thousand). Inventory in the amount of LVL 23,423 thousand (2006: LVL 16,866 thousand; 2005: LVL 15,948 thousand) have been pledged to secure bank credit lines (Note 15).

Of the total inventories consignment inventories as at 31 December 2007 was LVL 42,553 thousand (2006: LVL 58,175 thousand; 2005: 36,035 thousand), see Note 4(f).

### 12. Cash and cash equivalents

	2007	2006	2005
Cash at bank	2,480	1,146	1,468
Cash on hand	20	17	7
	<b>2,500</b>	<b>1,163</b>	<b>1,475</b>

The effective interest rate on the cash deposits as at 31 December 2007 was 1.4% (2006: 1.4%; 2005: 1.8%).

### 13. Share capital

	Number of shares (thousands)	Ordinary shares	Share premium	Total
<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>
<b>At 1 January 2007</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 2007</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 (2006: 6,877 thousand shares; 2005: 6,000 thousand shares) with a par value of LVL 1 per share (2006: LVL 1 per share, 2005: LVL 1 per share). All issued shares are fully paid. There is 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.

## Notes to the consolidated financial statements (continued)

### 14. Trade and other payables

	2007	2006	2005
Trade payables	75,629	49,300	47,285
Social security and other taxes	983	789	832
Unpaid dividends	3,454	-	50
Other	39	206	12
Accrued expenses	1,858	1,320	101
	<b>81,963</b>	<b>51,615</b>	<b>48,280</b>

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

	2007	2006	2005
LVL	380	244	85
USD	72,559	47,099	44,390
EUR	977	742	998
SKK	691	661	1,325
SIT	44	40	116
HRK	192	244	127
Other currencies	786	270	244
	<b>75,629</b>	<b>49,300</b>	<b>47,285</b>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 45 day terms.
- Other payables are non-interested bearing and have an average term of 30-day terms.
- Interest payable is normally settled monthly throughout the financial year.
- For terms and conditions relating to related parties, refer to Note 28.

## Notes to the consolidated financial statements (continued)

### 15. Borrowings

Interest-bearing loans and borrowings

Current	Effective Interest rate %	Maturity	2007	2006	2005
<b>Obligations under finance lease and hire purchase contracts</b>	EURIBOR + 1.4%	2008	82	57	39
<b>Bank overdrafts</b>					
Credit line from AS DnB Nord Banka (Latvia)	USD 3 month LIBOR + 0.75%	29.09.2008	35,265	29,975	-
Credit line from AS SEB Latvijas Unibanka (Latvia)	USD 12 month LIBOR + 1.45 %	30.06.2006			6,183
Credit line from Ļudovā bank (Slovakia)	USD 1 month fixed LIBOR + 0.55%	30.04.2008	595	1,193	-
Credit line from Všeobecná úverová banka (Slovakia)	USD 1 month fixed LIBOR + 0.4%	12.12.2006	-	-	1,424
Credit line from UniCredit Tiriac Bank (Romania)	LIBOR + 1.6%	15.05.2008	1,286	-	-
Credit line from Hypo Alpe-Adria-Bank d.d (Croatia)	9.5% yearly	15.01.2006	-	-	264
	RIBOR + 2.85% (9.54%)	26.11.2006	-	325	8
Credit line from AS Eesti Ühispank (Estonia)	5.5%	04.04.2006	-	3	117
Credit line from DNB Nord (Lithuania)	Libor + 1.3%	01.12.2008	2,140	2,003	-
Credit line from AB Vilniaus Bankas (Lithuania)	EURIBOR+2%	10.03.2006	-	-	658
Credit line from Vereins und Westbank Vilniaus skyrius (Lithuania)	EURIBOR+2%	10.03.2006	-	-	375
<b>Other loans:</b>					
Loan from AS DnB Nord Banka (Latvia)	10% p.a (fixed interest rate)	29.09.2008	2,420	-	-
Loan from SKB bank (Slovenia)	0.05522	14.11.2008	490	-	618
EUR Loan from SKB bank (Slovenia)	0.05522	03.12.2008	141	-	-
Loan from Novoljubljanska bank (Slovenia)	0.45% quarterly	17.03.2008	-	-	323
Loan from ELBACOMP D.O.O.	3.33 %	20.12.2007	-	232	538
Credit cards	0%	2007	-	1	-
			<b>42,419</b>	<b>33,789</b>	<b>10,547</b>
<b>Non-current</b>					
Obligations under finance lease and hire purchase contracts	EURIBOR + 1.4%	28.11.2011	131	107	76
<b>Other loans:</b>					
Bonds	10% p.a (fixed interest rate)	29.11.2010	4,568	-	-
			<b>4,699</b>	<b>107</b>	<b>76</b>
			<b>47,118</b>	<b>33,896</b>	<b>10,623</b>



## Notes to the consolidated financial statements (continued)

### 15. Borrowings (continued)

	2007	2006	2005
<b>Non-current</b>			
Finance lease liabilities	131	107	76
Other borrowings	4,568	-	-
	<b>4,699</b>	<b>107</b>	<b>76</b>
<b>Current</b>			
Bank borrowings	42,337	33,500	9,970
Finance lease liabilities	82	57	39
Other borrowings	-	232	538
	<b>42,419</b>	<b>33,789</b>	<b>10,547</b>
<b>Total borrowings</b>	<b>47,118</b>	<b>33,896</b>	<b>10,623</b>

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

	2007	2006	2005
LVL	-	-	520
USD	39,566	31,494	7,607
EUR	7,548	1,948	2,089
LTL	-	208	-
SIT	-	231	18
SKK	4	11	-
HRK	-	-	264
EEK	-	4	117
RON	-	-	8
	<b>47,118</b>	<b>33,896</b>	<b>10,623</b>

The effective interest rate on the USD denominated borrowings as at 31 December 2007 was 6.17% (2006: 6.22%; 2005: 5.12%). The effective interest rate on the EUR denominated borrowings as at 31 December 2007 was 6.91% (2006: 5.07%; 2005: 3.88%). The effective interest rate on the other currencies denominated borrowings as at 31 December was 19% (2006: 4.65%; 2005: 6.50%).

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

	2007	2006	2005
6 months or less	1,881	31,498	7,540
6-12 months	40,538	2,291	3,007
1-5 years	4,699	107	76
	<b>47,118</b>	<b>33,896</b>	<b>10,623</b>

## Notes to the consolidated financial statements (continued)

### 15. Borrowings (continued)

#### *Bank borrowings*

The Group has the following bank borrowings:

	2007	2006	2005
Credit line from AS DnB Nord Banka (Latvia)	35,265	29,975	-
Loan from AS DnB Nord Banka (Latvia)	2,420	-	-
Credit line from AS SEB Latvijas Unibanka (Latvia)	-	-	6,183
Loan from Novoljubljanska bank (Slovenia)	-	-	323
Loan from SKB bank (Slovenia)	631	-	618
Credit line from Všeobecná uverova bank (Slovakia)	-	-	1,424
Credit line from Ľudová bank (Slovakia)	595	1,193	-
Credit line from AB Vilniaus Bankas (Lithuania)	-	-	658
Credit line from Vereins und Westbank Vilniaus skyrius (Lithuania)	-	-	375
Credit line from DNB Nord (Lithuania)	2,140	2,003	-
Credit line from AS Eesti Uhispank (Estonia)	-	3	117
Credit line from Hypo Alpe-Adria-Bank d.d (Croatia)	-	-	264
Credit line from HVB (Romania)	-	325	8
Credit line from UniCredit Tiriac Bank (Romania)	1,286	-	-
Credit cards	-	1	-
	<b>42,337</b>	<b>33,500</b>	<b>9,970</b>

Most of the borrowings are provided in a form of bank credit lines amounting to LVL 42,337 thousand (2006: LVL 33,500 thousand; 2005: LVL 9,970 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 2007 was 6.23 % (2006: 6.15%; 2005: 4.99%).

The Group has the following undrawn borrowing facilities:

	31.12.2007	31.12.2006	31.12.2005
Credit line limit	47,628	35,206	11,614
Credit line used	(42,337)	(33,500)	(9,970)
	<b>5,291</b>	<b>1,706</b>	<b>1,644</b>

## Notes to the consolidated financial statements (continued)

### 15. Borrowings (continued)

#### Finance leases

The present value of finance lease liabilities is as follows:

	2007	2006	2005
No later than 1 year	82	57	39
Later than 1 year and no later than 5 years	130	107	76
	<b>212</b>	<b>164</b>	<b>115</b>
Finance lease liabilities – minimum lease payments:			
No later than 1 year	86	59	41
Later than 1 year and no later than 5 years	137	113	80
	<b>223</b>	<b>172</b>	<b>121</b>
Future finance charges on finance costs	(11)	(8)	(6)
Present value of finance lease liabilities	<b>212</b>	<b>164</b>	<b>115</b>

The effective interest rate on the finance leases as at 31 December 2007 was 5.61 % (2006: 4.55%; 2005: 3.97%).

#### Other borrowings

The Group has the following other borrowings:

	2007	2006	2005
<b>Long-term portion</b>			
Bonds	4,568	-	-
	<b>4,568</b>	<b>-</b>	<b>-</b>
<b>Short-term portion</b>			
Factoring	-	-	520
Borrowing from related party (see Note 28)	-	232	18
	<b>-</b>	<b>232</b>	<b>538</b>
	<b>4,568</b>	<b>232</b>	<b>538</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% in 2005.

The effective interest rate on the loan from related party as at 31 December 2006 was 3.40%; (2005: 3.73%). In 2007 there was no loan from the related party.

### 16. Provisions

	2007	2006	2005
<b>Beginning of year</b>	216	129	157
Charged / (credited) to the income statement:			
– Additional provisions	28	105	1
– Used during year	(133)	(18)	(29)
<b>End of year</b>	<b>111</b>	<b>216</b>	<b>129</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:

	2007	2006	2005
Deferred income tax assets:			
– Deferred income tax asset to be recovered after more than 12 months	(8)	(7)	-
– Deferred income tax asset to be recovered within 12 months	(19)	(3)	-
	<b>(27)</b>	<b>(10)</b>	<b>-</b>
Deferred income tax liabilities:			
– Deferred income tax liability to be recovered after more than 12 months	21	4	6
– Deferred income tax liability to be recovered within 12 months	4	(2)	1
	<b>25</b>	<b>2</b>	<b>7</b>
<b>Deferred income tax assets</b>	<b>(13)</b>	<b>(10)</b>	<b>-</b>
<b>Deferred income tax liabilities</b>	<b>11</b>	<b>2</b>	<b>7</b>

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

	2007	2006	2005
<b>Deferred tax assets at the beginning of the year</b>	<b>(10)</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities at the beginning of the year</b>	<b>2</b>	<b>7</b>	<b>9</b>
Net gain on foreign exchange	-	(2)	-
Income statement charge (Note 24)	6	(13)	(2)
<b>Deferred tax assets at the end of the year</b>	<b>(13)</b>	<b>(10)</b>	<b>-</b>
<b>Deferred tax liabilities at the end of the year</b>	<b>11</b>	<b>2</b>	<b>7</b>

#### Deferred tax liabilities and assets

	Accelerated tax depreciation	Other	Total
<b>At 1 January 2005</b>	<b>12</b>	<b>(3)</b>	<b>9</b>
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>
Charged / (credited) to the income statement	(13)	(2)	(15)
<b>At 31 December 2006</b>	<b>2</b>	<b>(10)</b>	<b>(8)</b>
<b>At 1 January 2007</b>	<b>2</b>	<b>(10)</b>	<b>(8)</b>
Credited to the income statement	23	(17)	6
<b>At 31 December 2007</b>	<b>25</b>	<b>(27)</b>	<b>(2)</b>

The Group did not recognise deferred income tax assets of LVL 164 thousand at 31 December 2007 (2006: LVL 75 thousand; 2005: LVL 39 thousand) in respect of losses amounting to LVL 402 thousand (2006: LVL 496 thousand; 2005: LVL 229 thousand) that can be carried forward against future taxable income.

## Notes to the consolidated financial statements (continued)

### 18. Revenue

	2007	2006	2005
Desktop components	280,983	208,833	226,113
Notebooks	147,324	70,269	42,393
Monitors	35,342	37,987	35,845
Peripherals	6,208	8,248	7,672
Consumer and multimedia	32,074	14,171	10,867
Solution products	23,097	17,135	15,403
	<b>525,028</b>	<b>356,643</b>	<b>338,293</b>

### 19. Expenses by nature

	2007	2006	2005
Trade inventory sold	497,119	335,783	324,851
Employee benefit expense	4,019	3,154	2,625
Depreciation and amortisation charges (Notes 7, 8)	199	197	212
Transportation expenses	813	416	564
Advertising costs	260	206	254
Rent and office maintenance expenses	601	470	507
Professional fees	865	214	354
Write-off of damaged goods	355	560	227
Other expenses	1,582	1,365	1,135
	<b>505,813</b>	<b>342,365</b>	<b>330,729</b>

### 20. Employee benefit expenses

	2007	2006	2005
Wages and salaries	3,230	2,482	1,885
Social security costs	688	571	485
Other employment benefits	101	101	255
	<b>4,019</b>	<b>3,154</b>	<b>2,625</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 % (2006: 30.17%; 2005: 30.3%) of the Social security costs are used to fund the state defined contribution pension systems.

### 21. Other income

	2007	2006	2005
Income from services provided	1,245	1,225	791
Gain from disposal of fixed assets	16	8	14
Other income	101	984	888
	<b>1,362</b>	<b>2,217</b>	<b>1,693</b>

## Notes to the consolidated financial statements (continued)

### 22. Other expenses

	2007	2006	2005
Direct operating expenses arising on providing services	132	77	31
Penalties and similar expenses	223	3	1
Loss from foreign exchange influence	232	-	-
Other expenses	107	29	80
	<b>694</b>	<b>109</b>	<b>112</b>

### 23. Finance income and costs

	2007	2006	2005
Interest expense:			
– Bank borrowings	(2,067)	(1,047)	(496)
– Other interests	(21)	(15)	(8)
Loss from changes in the fair value of derivative financial instruments (Note 9)	(20)	(154)	-
Net losses on foreign exchange	-	-	(608)
Finance costs	<b>(2,108)</b>	<b>(1,216)</b>	<b>(1,112)</b>
Finance income:			
– Interest income on short-term bank deposits	46	5	2
– Received penalties	19	18	16
– Other interest income	16	6	8
Gain on changes in the fair value of derivative financial instruments (Note 9)	-	114	-
Net gain on foreign exchange	-	-	-
Finance income	<b>81</b>	<b>143</b>	<b>26</b>
Net finance costs	<b>(2,027)</b>	<b>(1,073)</b>	<b>(1,086)</b>

## Notes to the consolidated financial statements (continued)

### 24. Income tax expense

	2007	2006	2005
Current tax	1,439	967	623
Deferred tax (Note 17)	6	(13)	(2)
	<b>1,445</b>	<b>954</b>	<b>621</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:

	17,856	15,313	8,059
Profit before tax			
Tax at the domestic rates applicable to profits in the country concerned	1,458	952	629
Income not subject to tax	(70)	(24)	(26)
Expenses not deductible for tax purposes	110	52	59
Tax discount for donations	(53)	(26)	(41)
Tax charge	<b>1,445</b>	<b>954</b>	<b>621</b>

The weighted average applicable tax rate was 8.1% (2006: 6.2%; 2005: 7.7%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

### 25. 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.

	2007	2006	2005
Profit attributable to equity holders of the Company	15,727	13,979	7,227
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877	6,343
Basic earnings per share (LVL per share)	2.29	2.03	1.14

### 26. Dividends per share

The dividends paid in 2007 were LVL 5,648 thousand (LVL 0.82 per share); 2006: LVL 2,092 thousand (LVL 0.30 per share); 2005: LVL 2,356 thousand (LVL 0.39 per share). A dividend in respect of the year ended 31 December 2007 of LVL 0.44 per share, amounting to a total dividend of LVL 3,000 thousand, is to be proposed at the Annual General Meeting on 18 April 2008. These financial statements do not reflect this dividend payable.

## Notes to the consolidated financial statements (continued)

### 27. Cash used in operations

	2007	2006	2005
Profit before income tax	17,856	15,313	8,059
Adjustments for:			
– Depreciation (Note 7)	186	186	166
– Amortisation (Note 8)	13	11	46
– Profit on disposal of property, plant and equipment (see below)	(16)	(8)	(14)
– Interest and similar income	(81)	(143)	(26)
– Interest and similar expenses	2,098	1,216	1,112
Changes in working capital (excluding the effects of exchange differences on consolidation):			
– Inventories	7,799	(16,819)	(51,198)
– Trade and other receivables	(59,235)	(21,379)	9,905
– Trade and other payables	25,013	1,834	26,828
Cash used in operations	<b>(6,367)</b>	<b>(19,789)</b>	<b>(5,122)</b>

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

	2007	2006	2005
Net book amount (Note 7)	18	57	5
Profit on disposal of property, plant and equipment	16	8	14
Proceeds from disposal of property, plant and equipment	<b>34</b>	<b>65</b>	<b>19</b>

### 28. Related-party transactions

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

	% for Share Capital		
	2007	2006	2005
Egons Mednis, President of Company	9.6	9.6	9.7
Andris Putans, Chairman of the Council	9.8	9.8	9.9
Eriks Strods, Member of the Council	9.1	9.1	9.3
Kaspars Viskints, Member of the Council	9.8	9.8	9.9
IT Investīcijas, A/S, domiciled in Latvia	35.2	35.2	35.7
East Capital Asset Management AB, domiciled in Sweden	8.8	8.8	8.5
Amber Trust II S.C.A., domiciled in Luxembourg	17.7	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 514 thousand (2006: LVL 367 thousand; 2005: LVL 433 thousand).

	2007	2006	2005
The Board members' remuneration:			
– salary expenses	397	301	350
– social insurance	117	66	83
	<b>514</b>	<b>367</b>	<b>433</b>



## Notes to the consolidated financial statements (continued)

### 28. Related-party transactions (continued)

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

The payables to related parties arise mainly from operating lease transactions. Particularly, rental services LVL 218 thousand (2006: LVL 124 thousand; 2005: LVL 100 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 5 thousand (2006: LVL 4 thousand; 2005: LVL 2 thousand).

The Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space. The given premises are in a construction process with expected completion in stages during 2008 and 2009. In 2007 the Company has done a prepayment in the amount of LVL 248 thousand.

In 2006, the Group's borrowings included a loan advanced from ELBACOMP D.O.O. to ELKOTEX D.O.O in the amount of LVL 232 thousand (2005: LVL 18 thousand). The director of ELKOTEX D.O.O has controlling interest in ELBACOMP D.O.O. The loan had 3.40% (2005: 3.73%) annual interest rate. By the end of the financial year 2007, the loan was settled.

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.

### 29. Commitments

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

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

### 30. 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.

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued a stand by letter of credit in the amount of USD 3,000 thousand in favour of ASUS Technology PTE LTD. The letter of credit serves as a partial security of A/S ELKO GRUPA purchases on credit to ASUS Technology PTE LTD.

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

### 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 2007.

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Elko Grupa

### Report on the Financial Statements

We have audited the accompanying 2007 consolidated financial statements of AS Elko Grupa, and its subsidiaries (the "Group"), which are set out on pages 3 through 41 and which comprise the consolidated balance sheet as at 31 December 2007, the consolidated statements of income, changes in equity and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Group's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by EU. 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 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.

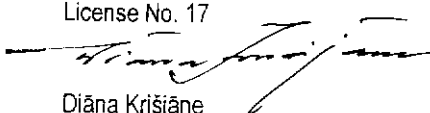
#### Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.


#### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3.1. (4) to the consolidated financial statements which indicates legislative risk of the Group in relation to its import of products into Russia and Ukraine. The operations of the Group and its financial position and financial performance may significantly be affected by future changes in interpretation and enforcement of tax legislation by the Russian or Ukrainian tax authorities.

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Chairperson of the Board



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Latvian Sworn Auditor  
Certificate No. 143

Rīga, 31 March 2008