

ELKO GRUPA JSC

Unaudited Consolidated Interim Financial Statements

For 6 months ended 30 June 2008

Management report

Business activities

AS ELKO GRUPA (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic states, Central and Eastern Europe. Our core business activity is wholesale distribution of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the ELKO GRUPA subsidiaries and cooperation partners, representing a broad range of vendors of these products all over the world, including Acer, Intel, Samsung, Sony and Western Digital.

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

Financial analysis

AS ELKO GRUPA sales for the first half of year of 2008 reached 555,6 million USD, rising 49% from first half of 2007. Gross profit for the year reached 26,5 million USD that is a growth by 12,2 million USD.

AS ELKO GRUPA profit after taxes reached 14,8 million USD that is growth by 136% comparing to first half of 2007. The Company's profitability ratio in 2008 was 2,6%.

The main reason for the increase in net results is the Company's ability to continue strong growth in CIS markets that resulted in increase of sales in CIS countries by 165 million USD (that is 61% increase comparing to first half of 2007)

Significant events during reporting period

In June 2008 the Company has become the official distributor of Micro-Star International and Tom Tom product wholesaler in Baltic states.

In May 2008 the Company listed its bonds in amount of 6,5 million EUR in Riga stock exchange.

During 2008 the Company finalized the set up of unified Baltic structure that resulted in creation of one central Baltic warehouse with location in Latvia.

AS ELKO GRUPA structure

AS ELKO GRUPA has ten subsidiaries: SIA ELKO Latvija, ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd. and Statex Consulting Ltd. In 2007 the subsidiary Statex Consulting Ltd acquired 100% of shares of the subsidiary Alma Ltd. AS ELKO GRUPA has full or partial ownership of the subsidiaries. Where AS ELKO GRUPA is not the sole shareholder, it holds the controlling interest.

Management report (cont'd)

Financial risk management

Multi-currency risk

AS ELKO GRUPA operates internationally and is exposed to foreign exchange risk arising from primarily with respect to the US dollar and the euro. Foreign exchange risk arises from multi-currency futures through recognition of assets and liabilities and accounting for long-term investments.

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 in Latvia and Estonia are carried out in the respective local currencies, which are pegged to the euro.

The Company has investments in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – the Latvian lats. The Company does not have any hedging agreements.

Interest rate risk

AS ELKO GRUPA uses current borrowing for financing part of its current assets which exposes us to interest rate risk. All the borrowings are at floating rate.

Credit risk

Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO GRUPA implements procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance that the Company started using in August 2006 and conservative credit monitoring policies. 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.

Inventories

AS ELKO GRUPA determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products and the procedures for ordering of the goods help to decrease the inventory days. Weekly inventory analysis eliminates the need to establish provisions for obsolete items.

The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction in case of decline of the market prices for the goods at the Company's warehouse.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows.

Management report (cont'd)

Prospects

Our performance is and will be influenced by macroeconomic, market and political situation and developments in Latvia and other countries where the Company has cooperation partners. The demand in all three geographic regions where the Company operates has increased against the background of comparatively low use of computers, becoming one of the key factors driving the Company's growth. Other factors include inflow of the EU structural funds and increase in local productivity of the Baltic and Eastern European companies, high oil prices and growing cost of other natural resources as well as reforms in the government sector in the CIS region.

We hope that the above-mentioned factors will help to sustain growth also in the coming years, ensuring positive results of our operations.

The financial performance of the Company during second half of 2008 depends on the amount of the additional funds the Company's will obtain for financing the working capital.

Events after balance sheet date

Since the last day of the reporting year until the date of signing these financial statements, there have been no events that would have material effect on the result of the reporting year.



Egons Mednis

Chairman of the Board,
Prezident

Riga, 15 August 2008

Statement of Management's Responsibilities

Un-audited consolidated financial statements are prepared to the best on our knowledge in accordance with International Financial Reporting Standards as adopted by EU. These un-audited financial statements give a true and fair view of the state of affairs of the Group and of the results of the Group for the period ended 30 June 2008 in all material aspects. In preparing those financial statements, management:

- ⌚ select suitable accounting policies and then apply them consistently;
- ⌚ make judgments and estimates that are reasonable and prudent;
- ⌚ prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by EU. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Egons Mednis
Chairman of the Management Board
JSC ELKO GRUPA
Riga, Latvia
August 15, 2008

Structure

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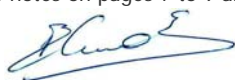
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ELKO GRUPA JSC
Unaudited consolidated interim financial statements
For 6 months ended 30 June 2008
(All amounts in USD thousands unless otherwise stated)

Consolidated balance sheet

	Note	30.06.2008	31.12.2007
ASSETS			
Non-current assets			
Property, plant and equipment		1,512	1,103
Intangible assets		537	238
Deferred income tax assets		29	27
		2,078	1,368
Current assets			
Inventories		254,201	142,378
Current income tax receivable		449	81
Trade and other receivables		153,921	209,758
Cash and cash equivalents		5,591	5,165
		414,162	357,382
Total assets		416,240	358,750
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EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	3	15,374	15,374
Share premium	3	7,815	7,815
Translation reserve		(1,890)	(7,391)
Retained earnings		73,544	69,291
		94,843	85,089
Minority interest in equity		4,728	4,014
Total equity		99,571	89,103
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LIABILITIES			
Non-current liabilities			
Borrowings	4	10,670	9,709
Deferred income tax liabilities		24	23
		10,694	9,731
Current liabilities			
Trade and other payables		222,615	169,345
Current income tax liabilities	5	44	2,698
Borrowings	4	82,788	87,643
Provisions		528	229
		305,975	259,915
Total liabilities		316,669	269,647
Total equity and liabilities		416,240	358,750

The notes on pages 7 to 9 are an integral part of these consolidated financial statements.



Egons Mednis
Prezident

ELKO GRUPA JSC
Unaudited consolidated interim financial statements
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(All amounts in USD thousands unless otherwise stated)

Consolidated income statement

	Note	Jan-Jun 2008	Jan-Jun 2007
Revenue	2	555,598	373,639
Cost of sales		(528,961)	(359,301)
Gross profit		26,637	14,338
Distribution costs		(2,223)	(1,518)
Administrative expenses		(8,888)	(5,548)
Other income		1,597	1,256
Other expenses		(626)	(1,269)
Operating profit		16,497	7,258
Finance income		2,419	1,531
Finance costs		(3,126)	(1,814)
Finance income/ (costs) – net		(707)	(283)
Profit before income tax		15,790	6,975
Income tax expense	5	(956)	(704)
Profit for the year		14,834	6,271
Attributable to:			
Equity holders of the Company		14,252	5,639
Minority interest		582	632
		14,834	6,271
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	6	2.07	1.00

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Egons Mednis
Prezident

ELKO GRUPA JSC
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For 6 months ended 30 June 2008
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Consolidated statement of changes in equity

		Share capital	Share premium	Transla- tion reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2006		15,374	7,815	83	19,513	42,785	1,772	44,557
Currency translation differences				(2,289)	-	(2,289)	151	(2,138)
Profit for the year				-	26,080	26,080	709	26,789
Total recognized income and expense for 2006		-	-	(2,289)	26,080	23,791	860	24,651
Dividend relating to 2005	9	-	-	-	(3,903)	(3,903)	-	(3,903)
Balance at 31 December 2006		15,374	7,815	(2,206)	41,690	62,673	2,632	65,305
Balance at 1 January 2007		15,374	7,815	(2,206)	41,690	62,673	2,632	65,305
Currency translation differences		-	-	(5,185)	9,929	4,744	612	5,356
Profit for the year		-	-	-	29,341	29,341	1,276	30,617
Total recognized income and expense for 2007		-	-	(5,185)	39,270	34,085	1,888	35,973
Dividend relating to 2006	9	-	-	-	(11,669)	(11,669)	(506)	(12,175)
Balance at 31 December 2007		15,374	7,815	(7,391)	69,291	85,089	4,014	89,103
Balance at 1 January 2008		15,374	7,815	(7,391)	69,291	85,089	4,014	89,103
Currency translation differences		-	-	5,501	(3,288)	2,213	132	2,345
Profit for the period		-	-	-	14,252	14,252	582	14,834
Total recognized income and expense for 2008		-	-	5,501	10,964	16,465	714	17,179
Dividend relating to 2007	9	-	-	-	(6,711)	(6,711)	-	(6,711)
Balance at 30 June 2008		15,374	7,815	(1,890)	73,544	94,843	4,728	99,571

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ELKO GRUPA JSC
Unaudited consolidated interim financial statements
For 6 months ended 30 June 2008
(All amounts in USD thousands unless otherwise stated)

Consolidated cash flows statement

	Note	30.06.2008	31.12.2007
Cash flows from operating activities			
Cash used in operations		19,051	(13,156)
Interest paid		(3,126)	(3,979)
Interest received		33	167
Income tax paid		(2,262)	(1,640)
Net cash used in operating activities		13,697	(18,608)
Cash flows from investing activities			
Purchases of property, plant and equipment		(434)	(548)
Proceeds from sale of property, plant and equipment		-	70
Purchases of intangible assets		-	(200)
Net cash used in investing activities		(434)	(678)
Cash flows from financing activities			
Proceeds from borrowings		157	29,711
Repayments of borrowings		(11,875)	(2,624)
Dividends paid to Company's shareholders	7	(1,119)	(4,533)
Dividends paid to Minority shareholders		-	(506)
Net cash generated from financing activities		(12,837)	22,048
Net (decrease) / increase in cash and cash equivalents		426	2,762
Cash and cash equivalents at beginning of the year		5,165	2,403
Cash and cash equivalents at end of the year		5,591	5,165

The notes on pages 7 to 9 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 6 months ended 30 June 2008 have been prepared in accordance with IAS 34, "Interim financial reporting". The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

Except as described below accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the annual consolidated financial statements for the year ended 31 December 2007.

For the consolidated financial statements for 6 month ended 30 June 2008 the management of the Company has chosen the early application of IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting',

2. 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 30 June 2008, 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

The segment results for the year ended 30 June 2008 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	44,473	77,127	433,998	-	555,598
Inter-segment revenue	523,409	1,333	184	(524,926)	-
Revenue	567,882	78,460	434,182	(524,926)	555,598

The segment results for the year ended 30 June 2007 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	34,726	70,171	268,742	-	373,639
Inter-segment revenue	292,634	44	89	(292,767)	-
Revenue	327,360	70,215	268,831	(292,767)	373,639

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).

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

The segment assets and liabilities at 30 June 2008 and capital expenditure for the year then ended are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	337,781	30,767	334,645	(286,954)	416,239
Liabilities	303,096	21,008	277,614	(285,050)	316,668

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Unallocated	Group
Assets	19,289	28,744	264,097	46,620	358,750
Liabilities	7,205	20,473	222,589	19,380	269,647

3. Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2007: 6,877 thousand shares) with a par value of USD 2.236 per share (2007: USD 2.236 per share). All issued shares are fully paid. There are no share options in any of the years presented.

4. Borrowings

	30.06.2008	31.12.2007
Non-current		
Finance lease liabilities	458	271
Other borrowings	10,212	9,438
	10,670	9,709
Current		
Bank borrowings	82,640	87,473
Finance lease liabilities	148	170
	82,788	87,643
Total borrowings	93,458	97,352

5. Income taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate for 6 months ended 30 June 2008 is 6.3% (the estimated tax rate for 6 months ended 30 June 2007 was 10.1%). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries.

6. Earnings per share

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

	Jan-Jun 2008	Jan-Jun 2007
Profit attributable to equity holders of the Company	14,252	5,639
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (USD per share)	2.07	0.82

7. Dividends per share

A dividend that relates to year ended 31 December 2007 of USD 0.91 per share, amounting to a total dividend of USD 6,198 thousand was proposed at the Annual General Meeting on 18 April 2008. During reporting period the dividends paid out amounts USD 1,033 thousand.

Notes to the consolidated financial statements (continued)

8. Related party transactions

Transactions with related parties:

The transactions with related parties arise mainly from operating lease agreements. Particularly, rental services USD 254 thousand (2007: USD 450 thousand) were bought from an entity controlled by some of the shareholders of the Company.

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 USD 512 thousand.

9. 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. The issued guarantee will expire in October 27' 2008.

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 July 22, 2008 enlarged to 6,000 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.

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 2,000 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.

All assets of A/S ELKO GRUPA has pledged as security in favour of A/S DnB NORD Banka.

10. Contingencies

There are no significant changes in contingent liabilities compared with December 31, 2007.

11. Subsequent events

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 30 June 2008.

12. Seasonality

According general trends in the IT industry the biggest part of revenues is generated in 4th quarter of the year. Apart from costs directly attributable to revenues all other expenses are split evenly over the period.