Grow to succeed. ELKO Group.

ELKO GRUPA JSC

Unaudited Condensed

Consolidated Financial Statements for the year 2008

Structure

Page

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. The Company's 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 in 2008 reached 1058 million USD, that is 2% raise comparing to 2007. Gross profit for the year reached 44 million USD that is 20% decrease comparing to 2007.

AS ELKO Grupa profit after taxes reached 11 million USD and the Company's net margin in 2008 was 1%.

Significant events during reporting period

In 2008 the Company has become the official distributor and/or has established business partnerships with well known IT companies, such as: *Micro-Star International, TomTom, Telsey, Palit, LG Electronics etc.*.

During 2008 the Company finalized the set up of unified Baltic structure by centralizing logistic, product management, marketing and warranty process management functions in Latvia. The subsidiaries in Lithuania and Estonia still are working on attracting new customer and conducting the sales activities. As the result of the restructuring the Company significantly has decreased the costs as well as improved the efficiency and competitiveness in the Baltic market.

In May 2008 the Company listed its bonds in amount of 6,5 million EUR in Riga stock exchange. The attracted financing is used to finance the working capital.

On 22 October 2008 the Company elected new managing director and Board member Jānis Casno succeeding previous managing director and Board member Jānis Abāšins.

AS ELKO GRUPA structure

AS ELKO Grupa has shareholding in 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 Elko Marketing Ltd acquired 100% of shares of the subsidiary Alma Ltd. AS ELKO Grupa has majority shareholding in all of the subsidiaries.

Financial risk management

Multi-currency risk

AS ELKO Grupa operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar and euro. Foreign exchange risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments in various currencies.

The purchase of goods from vendors is predominantly done in US dollars and the sales from the Company to subsidiaries are done in US dollars. The sales to customers in Latvia, Estonia and Lithuania are carried out in the respective local currencies, which are pegged to euro.

The Company has shareholding in foreign currencies and is therefore exposed to foreign currency risk when financial assets and liabilities denominated in foreign currencies are translated into the presentation currency – Latvian lats.

The sales of the Company are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars.

Interest rate risk

AS ELKO Grupa uses current borrowing for financing part of its current assets. All the borrowings are at floating rate that exposes the Company to interest rate risk.

Credit risk

Credit risk arises from the credit exposure to outstanding trade receivables. AS ELKO Grupa has implemented 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 utilization 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 decreases 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 or that are already ordered.

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 by improving the management of working capital.

Management report (cont'd)

Prospects

The Company's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Company has cooperation partners. The key factors driving the Company's growth was the increase in demand in the markets where the Company operates that were mainly affected by rapid economical development as well as comparatively low use of computers. The other factors include inflow of the EU structural funds and increase in local productivity of the Baltic and Eastern European companies as well as reforms in the government sector in the CIS region.

The Company believes that the above-mentioned factors will help to sustain continuous growth also in the coming years, ensuring positive results of our operations. At the same time in the light of the overall market condition as well as forecasted worldwide economical recession, currently a slowdown in demand growth has been observed, that possibly can result in decrease of the sales volumes and the profitability indicators in future.

The management believes that the Company will mitigate the negative aspects from current economical condition affecting the Company by utilizing the wide geographical distribution network in nine countries where the Company operates as well as centralized management structure.

Events after balance sheet date

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 31 December 2008.

Egons Mednis

Chairman of the Board,
President

Riga, 27 February, 2009

(All amounts in USD thousands unless otherwise stated)

Consolidated balance sheet

	Note	31.12.2008	31.12.2007
ASSETS			
Non-current assets			
Property, plant and equipment		1,370	1,103
Intangible assets		261	238
Deferred income tax assets		-	27
		1,631	**1,368**
Current assets			
Inventories		168,011	142,378
Current income tax receivable		1,322	81
Trade and other receivables		141,242	209,758
Cash and cash equivalents		6,448	5,165
		317,023	**357,382**
Total assets		**318,654**	**358,750**
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		(2,093)	(7,391)
Retained earnings		71,544	69,291
		92,640	**85,089**
Minority interest in equity		**3,133**	**4,014**
Total equity		**95,773**	**89,103**
LIABILITIES			
Non-current liabilities			
Borrowings	4	9,478	9,709
Deferred income tax liabilities		29	23
		9,507	**9,731**
Current liabilities			
Trade and other payables		85,276	169,345
Current income tax liabilities	5	454	2,698
Borrowings	4	127,172	87,643
Provisions		472	229
		213,374	**259,915**
Total liabilities		**222,881**	**269,647**
Total equity and liabilities		**318,654**	**358,750**

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

Egons Mednis
President

(All amounts in USD thousands unless otherwise stated)

Consolidated income statement

	Note	Jan-Dec 2008	Jan-Dec 2007
Revenue	2	1,058,346	1,036,376
Cost of sales		(1,014,276)	(981,285)
Gross profit		**44,070**	**55,091**
Distribution costs		(5,187)	(3,186)
Administrative expenses		(17,569)	(13,976)
Other income		4,525	2,689
Other expenses		(6,545)	(1,370)
Operating profit		**19,294**	**39,248**
Finance income		447	160
Finance costs		(7,546)	(4,161)
Finance income/ (costs) – net		**(7,099)**	**(4,001)**
			-
Profit before income tax		**12,195**	**35,247**
Income tax expense	5	(1,165)	(2,852)
Profit for the year		**11,030**	**32,395**
Attributable to:			
Equity holders of the Company		11,375	31,045
Minority interest		(345)	1,350
		11,030	**32,395**
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	**1.65**	**4.51**

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

Egons Mednis
President

(All amounts in USD thousands unless otherwise stated)

Consolidated statement of changes in equity

	Share capital	Share premium	Translation 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	-	-	-	(3,903)	(3,903)	-	(3,903)
Balance at 31 December 2006	**15,374**	**7,815**	**(2,206)**	**45,593**	**66,576**	**2,632**	**69,208**
Balance at 1 January 2007	**15,374**	**7,815**	**(2,206)**	**45,593**	**66,576**	**2,632**	**69,208**
Currency translation differences	-	-	(5,185)	4,322	(863)	538	(325)
Profit for the year	-	-	-	31,045	31,045	1,350	32,395
Total recognized income and expense for 2007	**-**	**-**	**(5,185)**	**35,367**	**30,182**	**1,888**	**32,070**
Dividend relating to 2006	-	-	-	(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	-	-	5,298	(2,411)	2,887	56	2,943
Profit for the period	-	-		11,375	11,375	(345)	11,030
Total recognized income and expense for 2008	**-**	**-**	**5,298**	**8,964**	**14,262**	**(289)**	**13,973**
Dividend relating to 2007	-	-	-	(6,711)	(6,711)	(592)	(7,303)
Balance at 31 December 2008	**15,374**	**7,815**	**(2,093)**	**71,544**	**92,640**	**3,133**	**95,773**

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

(All amounts in USD thousands unless otherwise stated)

Consolidated cash flows statement

	Note	31.12.2008	31.12.2007
Cash flows from operating activities			
Cash used in operations		(20,219)	(13,156)
Interest paid		(7,546)	(3,979)
Interest received		447	167
Income tax paid		(3,485)	(1,640)
Net cash used in operating activities		**(30,803)**	**(18,608)**
Cash flows from investing activities			
Purchases of property, plant and equipment		(559)	(548)
Proceeds from sale of property, plant and equipment		-	70
Purchases of intangible assets		-	(200)
Net cash used in investing activities		**(559)**	**(678)**
Cash flows from financing activities			
Proceeds from borrowings		42,636	29,711
Repayments of borrowings		(2,854)	(2,624)
Dividends paid to Company's shareholders	7	(6,545)	(4,533)
Dividends paid to Minority shareholders		(592)	(506)
Net cash generated from financing activities		**32,645**	**22,048**
Net (decrease) / increase in cash and cash equivalents		**1,283**	**2,762**
Cash and cash equivalents at beginning of the year		5,165	2,403
Cash and cash equivalents at end of the year		**6,448**	**5,165**

The notes on pages 10 to 12 are an integral part of these consolidated financial statements.

(All amounts in USD thousands unless otherwise stated)

Notes to the consolidated financial statements

1. General principles

These condensed consolidated financial statements for year 2008 have been prepared in accordance with International Accounting Standarts. The condensed 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 year 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 31 December 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 result. Unallocated remain operating expenses of the central operation.

The segment results for the year ended 31 December 2008 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eleminations	Group
Third-party revenue	100,810	149,599	807,938	-	1,058,347
Inter-segment revenue	885,138	2,201	23,645	(910,984)	-
Revenue	**985,948**	**151,800**	**831,583**	**(910,984)**	**1,058,347**

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eleminations	Group
Third-party revenue	101,427	176,944	758,553	(548)	1,036,376
Inter-segment revenue	855,740	312	28,985	(885,037)	-
Revenue	**957,167**	**177,256**	**787,538**	**(885,585)**	**1,036,376**

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.

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

The segment assets at 31 December 2008 and capital expenditure for the year then ended are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eleminations	Group
Assets	41,405	33,027	277,882	(33,660)	318,654

The segment assets 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	Adjustments and eleminations	Group
Assets	65,909	28,744	264,097	-	358,750

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

	31.12.2008	31.12.2007
Non-current		
Finance lease liabilities	249	271
Other borrowings	9,229	9,438
	9,478	**9,709**
Current		
Bank borrowings	126,983	87,473
Finance lease liabilities	189	170
	127,172	**87,643**
Total borrowings	**136,650**	**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 year ended 31 December 2008 is 9.6% (the estimated tax rate for year 2007 was 8.1%). 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 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.

	Jan-Dec 2008	Jan-Dec 2007
Profit attributable to equity holders of the Company	11,375	31,044
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (USD per share)	1.65	4.51

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 to USD 6,545 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 LVL 390 thousand (USD 789 thousand), 2007: LVL 218 thousand (USD 450 thousand) were bought from an entity controlled by some of the shareholders of the Company.
The Group has entered into an agreement with related party AST BALTS for rent of warehousing and office space. Since August' 2008 warehouse premises are used for stock. The office building is under construction with ecpected delivery terms in several stages during year 2009. In 2008 the Group has done an additional prepayment in the amount of LVL 142 thousand (USD 287 thousand) for improvement works in new office premises.

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 2,000 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 April 29' 2009.
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 9,500 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. On February 2009 the guarantee was reduced for 3.500 thousands.
All assets of JSC 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, 2008.

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 31 December 2008.

12. Seasonality

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