

ELKO GRUPA JSC

Unaudited Consolidated Interim Financial Statements
For 3 months ended 31 March 2009

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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 the first quarter of 2009 reached 146.5 million USD (112.2 million EUR) that is 59.4% decrease comparing to the first quarter of 2008. The decrease is mainly related to adverse market condition and overall global economic crisis that has affected the Company's performance. Gross profit for the first quarter of 2009 reached 5.6 million USD (4.3 million EUR) that is 71.7% decrease comparing to the first quarter of 2008.

The net result of AS ELKO Grupa for the first quarter of 2009 was negative in amount of 3.4 million USD (2.6 million EUR) comparing to profit of 13.1 million USD (8.8 million EUR) in the first quarter of 2008.

Significant events during reporting period

In 2009 the Company has become the official distributor and/or has established business partnerships with well known IT companies, such as: *Epson, Compucase, In WIN, NVIDIA and MSI*.

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.

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 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 – Euro.

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.

To deal with the currently observed economical recession in the markets the Company has implemented strict cost saving policies to align the costs with the sales amounts. The measures taken include reduction of the salaries by 15% as of 1 April 2009.

Even so the net results for the first quarter are negative the management of the Company 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

At 14 April 2009, in Annual General Shareholders' meeting the shareholders decided to distribute dividends in amount of 2.12 million LVL (3 million EUR). AS DnB Nord Banka retains the right to change the shareholders' decision on dividend distribution

Except for the aforementioned 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 March 2009.



Egons Mednis

Chairman of the Board,
President

Riga, 15 May, 2009

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of JSC ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the unaudited consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as at 31 March 2009 and of its financial operations for the 3 month period then ended. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

- on consistent basis applied appropriate accounting methods;
- has provided well-grounded and prudent conclusions and evaluations;
- has followed the going concern principle.

The Board of Directors of JSC Elko Grupa is responsible for the maintenance of proper accounting records so that at the appropriate moment the financial records would show the true and fair view of the financial position of the Group and would ensure the possibility for the management to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.



Egons Mednis

Chairman of the Board,
President

Riga, 15 May, 2009

Consolidated balance sheet

	Note	31.03.2009	31.12.2008
ASSETS			
Non-current assets			
Property, plant and equipment		867	996
Intangible assets		184	168
		1,051	1,164
Current assets			
Inventories		91,903	117,403
Current income tax receivable		1,048	896
Trade and other receivables		90,007	100,889
Cash deposits		1,211	704
Cash and cash equivalents		4,402	3,888
		188,571	223,780
Total assets		189,622	224,944
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EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	4	9,785	9,785
Share premium	4	4,974	4,974
Translation reserve		(1,778)	(2,708)
Retained earnings		52,347	52,680
		65,328	64,731
Minority interest in equity		2,235	2,255
Total equity		67,563	66,986
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LIABILITIES			
Non-current liabilities			
Borrowings	5	176	176
		176	176
Current liabilities			
Trade and other payables		46,287	60,835
Current income tax liabilities	6	571	545
Borrowings	5	74,845	96,212
Provisions		180	190
		121,883	157,782
Total liabilities		122,059	157,958
Total equity and liabilities		189,622	224,944

The notes on pages 11 to 13 are an integral part of these consolidated financial statements.



Egons Mednis
President

Consolidated income statement

	Note	Jan-Mar 2009	Jan-Mar 2008
Revenue	2	112,229	241,480
Cost of sales		(107,970)	(228,230)
Gross profit		4,259	13,250
Distribution costs		(570)	(835)
Administrative expenses		(2,835)	(2,762)
Other income		755	908
Other expenses	3	(3,391)	(225)
Operating profit		(1,782)	10,336
Finance income		36	46
Finance costs		(841)	(899)
Finance income/ (costs) – net		(805)	(853)
Profit before income tax		(2,587)	9,483
Income tax expense	6	(15)	(697)
Profit for the year		(2,602)	8,786
Attributable to:			
Equity holders of the Company		(2,602)	8,402
Minority interest		-	383
		(2,602)	8,785
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in EUR per share)	7	(0.38)	1.22

The notes on pages 11 to 13 are an integral part of these consolidated financial statements.



Egons Mednis
President

Consolidated statement of changes in equity

	Share capital	Share premium	Transla- tion reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2008	9,785	4,974	(3,880)	47,720	58,599	2,764	61,363
Currency translation differences	-	-	1,172	282	1,454	124	1,578
Profit for the period	-	-	-	8,947	8,947	(235)	8,712
Total recognized income and expense for 2008	-	-	1,172	9,229	10,401	(111)	10,290
Dividend relating to 2007	-	-	-	(4,269)	(4,269)	(398)	(4,667)
Balance at 31 December 2008	9,785	4,974	(2,708)	52,680	64,731	2,255	66,986
Balance at 1 January 2009	9,785	4,974	(2,708)	52,680	64,731	2,255	66,986
Currency translation differences	-	-	930	2,269	3,199	(20)	3,179
Profit for the period	-	-	-	(2,602)	(2,602)	-	(2,602)
Total recognized income and expense for 2009	-	-	930	(333)	597	(20)	577
Dividend relating to 2008	-	-	-	-	-	-	-
Balance at 31 March 2009	9,785	4,974	(1,778)	52,347	65,328	2,235	67,563

The notes on pages 11 to 13 are an integral part of these consolidated financial statements.

Consolidated cash flows statement

	Jan-Mar 2009	Jan-Mar 2008
Cash flows from operating activities		
Profit before tax	(2,587)	9,482
Adjustment to reconcile profit before tax to net cash flows		
Depreciation and impairment of intangible assets	120	97
Amortisation and impairment of intangible assets	9	10
Interest income	(36)	(46)
Interest expenses	831	761
Movements in allowances	3,089	138
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables	13,978	41,078
(Increase)/Decrease in inventories	34,281	(36,746)
Increase/(Decrease) in trade and other payables	(16,726)	(10,990)
Income tax paid	(114)	(14)
Net cash used in operating activities	32,845	3,771
Cash flows from investing activities		
Purchases of property, plant and equipment	(23)	(166)
Purchases of intangible assets	(13)	-
Increase in cash deposits	(454)	-
Interest received	36	46
Net cash used in investing activities	(454)	(121)
Cash flows from financing activities		
Repayments of borrowings	(28,574)	(2,452)
Interest paid	(831)	(761)
Dividends paid to Company's shareholders	(2,472)	-
Net cash generated from financing activities	(31,877)	(3,213)
Net (decrease) / increase in cash and cash equivalents	514	437
Cash and cash equivalents at beginning of the year	3,994	3,557
Cash and cash equivalents at end of the year	4,508	3,994

The notes on pages 11 to 13 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 3 months ended 31 March 2009 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 2008.

Accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in the annual consolidated financial statements for the year ended 31 December 2008.

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 March 2009, 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 3 month ended 31 March 2009 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	16,171	21,332	74,726	-	112,229
Inter-segment revenue	48,860	184	84	(49,128)	-
Revenue	65,031	21,516	74,810	(49,128)	112,229

The segment results for 3 month ended 31 March 2008 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	15,290	29,530	196,660	-	241,480
Inter-segment revenue	182,397	83	11,510	(193,990)	-
Revenue	197,687	29,613	208,170	(193,990)	241,480

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.

The segment assets at 31 March 2009 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	141,942	20,258	161,512	(134,090)	189,622

The segment assets at 31 December 2008 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	175,150	24,255	202,054	(176,515)	224,944

Notes to the consolidated financial statements (continued)

3. Other operating expenses

The other operating expenses increase is mainly related to the increase on the provisions for doubtful receivables in amount of 3.1 million EUR.

4. Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2008: 6,877 thousand shares) with a par value of EUR 1.423 per share (2008: EUR 1.423 per share). All issued shares are fully paid. There are no share options in any of the years presented.

5. Borrowings

	31.03.2009	31.12.2008
Non-current		
Finance lease liabilities	176	176
	176	176
Current		
Bank borrowings	68,138	88,835
Other borrowings	6,611	7,245
Finance lease liabilities	96	132
	74,845	96,212
Total borrowings	75,021	96,388

6. 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 3 months ended 31 March 2009 is -0.6% (the estimated tax rate for 3 months ended 31 March 2008 was 7.3%). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries.

7. 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-Mar 2009	Jan-Mar 2008
Profit attributable to equity holders of the Company	(2,602)	8,402
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (EUR per share)	<u>(0.38)</u>	<u>1.22</u>

8. Related party transactions

Transactions with related parties:

The transactions with related parties arise mainly from operating lease transactions. Particularly, rental services USD 71 thousand, 2008: EUR 625 thousand were provided by AST BALSTS that are controlled by some of the shareholders of the Company. Accordingly the Company has entered into an agreement with related party AST BALSTS for rent of warehousing and office space. The respective office premises are in a construction process with expected completion at the end of 2009. Since August 2008 the warehouse premises are used as central warehouse for Baltic region. In 2008 the Company has done additional prepayment for the rent in the amount of USD 287 thousand.

9. Issued guarantees and pledges

AS DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantee in the amount of USD 2,000 thousand (EUR 1,514 thousand) in favour of INTEL INTERNATIONAL B.V. Guarantee serves as a partial security of AS ELKO GRUPA purchases on credit to INTEL INTERNATIONAL B.V. The issued guarantee will expire in April 29' 2009.

AS DnB NORD Banka with mediation of DnB NOR Bank ASA has issued a stand by letter of credit in the amount of USD 3,500 thousand (EUR 2,650 thousand) in favour of ASUS Technology PTE LTD. The letter of credit serves as a partial security of AS ELKO GRUPA purchases on credit to ASUS Technology PTE LTD.

All assets of JSC ELKO GRUPA have been pledged as security in favour of AS DnB NORD Banka.

Notes to the consolidated financial statements (continued)

10. Contingencies

There are no significant changes in contingent liabilities compared with March 31, 2009.

11. Subsequent events

At 14 April 2009, in Annual General Shareholders' meeting the shareholders decided to distribute dividends in amount of LVL 2,120,000 (EUR 3,016,488). AS DnB Nord Banka retains the right to change the shareholders' decision on dividend distribution.

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.