

ELKO GRUPA JSC

Unaudited Condensed
Consolidated Financial Statements for the year 2009 (LVL)

Structure

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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

ELKO Grupa AS turnover in year 2009 has reached USD 642.1m that constitutes 39.3% decrease from the corresponding period in 2008. Consequently gross margin has decreased by 35.4% and reached to USD 27m in 2009. Both Turnover and gross margin results have decreased due to the local market contractions and the global financial crisis that affected Company performance particularly in 2008Q4 and in first half of the 2009. However second half of the 2009 has brought positive trend to the market and to the Company results respectively. Turnover of the last quarter of 2009 has increased by the 6.8% comparatively to the 2008Q4. Furthermore Gross margin was USD 4.5m in 2009Q3 and USD 13.8m in 2009Q4 that constitutes 4.7% and 25.9% increase respectively.

During the market contraction phase Company has significantly decreased its distribution and administration costs 14.7% and 16.5% accordingly. Personnel costs were cut from USD 12m in 2008 to USD 9.8m in 2009 thus corresponding to the most significant decrease in expenses.

The Company conservatively evaluated its financial assets in 2009 and booked USD 30.8m in provisions for bad debtors. Thus as of end of 2009 Company reports negative net result and loss in amount of USD 26.6m contrary to the profit of USD 12.9m in 2008. However positive market trends in second half of the 2009 allowed Company to report positive net results in last two quarters of the year USD 1.9m and 3m respectively. In 2008 Company reported net loss in amount of USD 1.7m and USD 0.2m in last two quarters.

The equity ratio of the company calculated as equity over assets reached 38.4% and has significantly increased from December 31, 2008 (29.8%). The Company has also improved its financial leverage as the debt-to-equity ratio has decreased from 0.9 to 0.85.

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.

There are positive signs that demand in the Company's markets have stabilized and show weak, but tendency to grow. That allows company to remain conservatively optimistic regarding trade volumes in 2010.

Given the current market conditions 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 April 1, 2009 and reduction of staff by approximately 10%. Significant resources have been devoted towards review of processes and efficiency improvements. As a result the distribution and administrative costs were decreased by 14.7% and 16.5% in 2009. The Company plans to increase its turnover and profit margin by adapting to the current market conditions and completing all internal efficiency improvements in the meantime keeping administrative and distribution costs at the same level.

In the light of given credit and IT market risks the management has assigned priority towards working capital management. The Company has tightened its credit policies by reviewing customer payment terms and requiring additional securities from customers in order to back up the provided credit lines. It is expected that some part of the provided provisions are recoverable pending customers' ability to solve the liquidity issues. The management has strong belief that furtherly there should not be any considerable defaults by customers.

Despite negative net result as of end of 2009, Company remains positive about future prospects due to the positive trend in second half of 2009. The Company in very short period has been able to balance expenses and significantly change internal business processes, like procurement, credit policies, logistics etc. Results of rationalization lead to the positive results in second half of 2009 and provide positive improvement for 2010. The Company management believes that current sound financial standing provides solid base for the future business growth.

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: Compucase, In WIN, NVIDIA, Lenovo and MSI.

In August 2009 the Company has announced the suspension of operations in Croatian market. Due to the adverse market conditions as well as unacceptable cash cycle and profitability in Croatian market the management has evaluated further options and decided to suspend the operations in the respective market and continue to devote more efforts and resources for developing the operations in the remaining markets. The suspensions of the operations in Croatian market will not significantly affect the operations of ELKO Group.

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. 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 is predominantly in US dollars, but sales are conducted in different currencies. In the CIS region main currency is US dollar, but in the Baltic trade is conducted in local currencies that are pegged to the euro. CEE countries Slovakia and Slovenia trades in Euros, but Romania in national currency – Romanian lei(s).

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 – US dollar.

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.

Management report (cont'd)

Financial risk management (cont'd)

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.

Events after balance sheet date

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 of December 31, 2009.



Egons Mednis

Chairman of the Board,

President

Riga, February 28, 2010

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 of December 31, 2009 and of its financial operations for the year 2009. 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, February 28, 2010

Consolidated balance sheet

	Note	2009.12.31	2008.12.31
ASSETS			
Non-current assets			
Property, plant and equipment		495	700
Intangible assets		115	118
		<u>610</u>	<u>818</u>
Current assets			
Inventories		34,551	82,511
Current income tax receivable		298	630
Trade and other receivables		49,651	70,904
Other financial assets		668	-
Cash and cash equivalents		2,722	3,227
		<u>87,890</u>	<u>157,272</u>
Total assets		<u><u>88,500</u></u>	<u><u>158,090</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	4	6,877	6,877
Share premium		3,496	3,496
Translation reserve		426	(1,903)
Retained earnings		21,948	37,023
		<u>32,747</u>	<u>45,493</u>
Minority interest in equity		<u>1,203</u>	<u>1,585</u>
Total equity		<u><u>33,950</u></u>	<u><u>47,078</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings	5	48	124
		<u>48</u>	<u>124</u>
Current liabilities			
Trade and other payables		28,914	42,754
Current income tax liabilities	6	2	383
Borrowings	5	25,499	67,617
Provisions		87	134
		<u>54,502</u>	<u>110,888</u>
Total liabilities		<u>54,550</u>	<u>111,012</u>
Total equity and liabilities		<u><u>88,500</u></u>	<u><u>158,090</u></u>

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



Egons Mednis
President

ELKO GRUPA JSC
Unaudited Condensed Consolidated Financial Statements
for the year 2009
(All amounts in LVL thousands unless otherwise stated)

Consolidated income statement

	Note	2009	2008	Oct-Dec 2009	Oct-Dec 2008
Revenue	2	324,450	505,376	103,126	109,221
Cost of sales		<u>(310,813)</u>	<u>(485,377)</u>	<u>(96,268)</u>	<u>(103,435)</u>
Gross profit		13,637	19,999	6,858	5,786
Distribution costs		(2,436)	(2,698)	(749)	(1,066)
Administrative expenses		(7,306)	(8,262)	(1,787)	(2,403)
Other income		1,615	2,127	417	291
Other expenses	3	<u>(17,170)</u>	<u>(1,399)</u>	<u>(2,568)</u>	<u>(1,088)</u>
Operating profit		(11,660)	9,767	2,171	1,520
Finance income		160	121	103	88
Finance costs		<u>(1,796)</u>	<u>(3,157)</u>	<u>(440)</u>	<u>(1,429)</u>
Finance income/ (costs) – net		(1,636)	(3,036)	(337)	(1,341)
Profit before income tax		(13,296)	6,731	1,834	179
Income tax expense	6	<u>(180)</u>	<u>(608)</u>	<u>(45)</u>	<u>(52)</u>
Profit for the year		(13,476)	6,123	1,789	127
Attributable to:					
Equity holders of the Company		(13,150)	6,288	2,236	465
Minority interest		<u>(326)</u>	<u>(165)</u>	<u>(447)</u>	<u>(338)</u>
		(13,476)	6,123	1,789	127
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in LVL per share)	7	<u>(1.91)</u>	<u>0.91</u>	<u>0.33</u>	<u>0.07</u>

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	6,877	3,496	(2,727)	33,537	41,183	1,943	43,126
Currency translation differences	-	-	824	198	1,022	87	1,109
Profit for the period	-	-	-	6,288	6,288	(165)	6,123
Total recognized income and expense for 2008	-	-	824	6,486	7,310	(78)	7,232
Dividend relating to 2007	-	-	-	(3,000)	(3,000)	(280)	(3,280)
Balance at 31 December 2008	6,877	3,496	(1,903)	37,023	45,493	1,585	47,078
Balance at 1 January 2009	6,877	3,496	(1,903)	37,023	45,493	1,585	47,078
Currency translation differences	-	-	2,329	(1,925)	404	(15)	389
Profit for the period	-	-	-	(13,150)	(13,150)	(326)	(13,476)
Total recognized income and expense for 2009	-	-	2,329	(15,075)	(12,746)	(341)	(13,087)
Dividend relating to 2008	-	-	-	-	-	(41)	(41)
Balance at 31 December 2009	6,877	3,496	426	21,948	32,747	1,203	33,950

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

Consolidated cash flows statement

	2009	2008
Cash flows from operating activities		
Profit before tax	(13,296)	6,731
Adjustment to reconcile profit before tax to net cash flows		
Depreciation and amortisation	344	299
Loss on disposal of property, plant and equipment	3	30
Interest income	(160)	(121)
Interest expenses	1,796	3,157
Currency translation differences	389	-
Movements in allowances	(47)	148
Working capital adjustments:		
Decrease in trade and other receivables	21,253	31,384
(Increase)/Decrease in inventories	47,960	(13,628)
Increase in trade and other payables	(10,519)	(39,209)
Income tax paid	(229)	(1,798)
Net cash used in operating activities	47,494	(13,007)
Cash flows from investing activities		
Purchases of fixed assets	(139)	(512)
Purchase of other financial assets	(668)	-
Interest received	160	121
Net cash used in investing activities	(647)	(391)
Cash flows from financing activities		
Net proceeds from borrowings	(42,194)	20,623
Interest paid	(1,796)	(3,157)
Dividends paid to Company's shareholders	(3,321)	(3,133)
Dividends paid to Minority shareholders	(41)	(208)
Net cash generated from financing activities	(47,352)	14,125
Net increase in cash and cash equivalents	(505)	727
Cash and cash equivalents at beginning of the year	3,227	2,500
Cash and cash equivalents at end of the period	2,722	3,227

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 consolidated financial statements for year 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS). The 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 December 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 the year ended 31 December 2009 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	24,898	67,574	231,978	-	324,450
Inter-segment revenue	193,420	101		(193,521)	-
Revenue	218,318	67,675	231,978	(193,521)	324,450

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 eliminations	Group
Third-party revenue	48,122	71,602	385,652	-	505,376
Inter-segment revenue	422,477	1,053	12,995	(436,525)	-
Revenue	470,599	72,655	398,647	(436,525)	505,376

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.

The segment assets as at 31 December 2009 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	71,241	11,099	74,946	(68,786)	88,500

The segment assets as at 31 December 2008 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	123,093	17,046	142,001	(124,050)	158,090

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 15.6 million LVL.

4. Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2008: 6,877 thousand shares) with a value of LVL 1 per share (2008: LVL 1 per share). All issued shares are fully paid. There are no share options in any of the years presented.

5. Borrowings

	2009.12.31	2008.12.31
Non-current		
Finance lease liabilities	<u>48</u>	<u>124</u>
	48	124
Current		
Bank borrowings	20,635	62,433
Other borrowings	4,787	5,090
Finance lease liabilities	<u>77</u>	<u>94</u>
	25,499	67,617
Total borrowings	<u>25,547</u>	<u>67,741</u>

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 year ended 31 December 2009 is negative 1.4% (the estimated tax rate for year ended 31 December 2008 was 12.6%). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries, as well as the Group's policy on recognizing deferred tax assets

7. 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.

	2009	2008
Profit attributable to equity holders of the Company	(13,150)	6,288
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (LVL per share)	<u>(1.91)</u>	<u>0.91</u>

8. Related party transactions

Transactions with related parties:

The transactions with related parties arise mainly from operating lease transactions. Particularly, rental services LVL 423 thousand, 2008: LVL 439 thousand were provided by AST BALTS that are controlled by some of the shareholders of the Company.

Accordingly the Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space.

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 LVL 142 thousand.

Notes to the consolidated financial statements (continued)

9. Issued guarantees and pledges

AS DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantee in the amount of USD 3 million (LVL 1.5 million).

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 as at December 31, 2009.

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 2009.