Grow to succeed. ELKO Group.

ELKO GRUPA JSC

Unaudited Consolidated Interim Financial Statements

For 6 months ended 30 June 2009 (in EUR)

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

AS ELKO Grupa sales in the first half of 2009 reached 257.0 million USD (196.0 million EUR) that is 53.7% decrease comparing to the first half of 2008. Gross profit for the first half of 2009 reached 8.7 million USD (6.6 million EUR) that is 67.5% decrease comparing to the first half of 2008. The decrease in sales and gross margin is mainly related to adverse market condition and overall global economic crisis that has affected the Company's performance already starting from fourth quarter of 2008.

In face of adverse business conditions the Company has managed considerably decrease the distribution and administrative costs by 8.6% and 20% respectively. The prime savings have been achieved on employment costs that reached 4.9 million USD (3.7 million EUR) comparing to 5.9 million USD (3.9 million EUR) in the first half of 2008.

The company has revalued it's financial assets, which has resulted in provision for doubtful debts in the amount of 29.5 million USD, The net result of AS ELKO Grupa for the first half of 2009 was negative in amount of 31.5 million USD comparing to profit of 14.8 million USD in the first half of 2008. The operating result before provisions for doubtfull debtors was positive 0.1 million USD. The equity ratio of the company calculated as equity over assets was 29.7% and has remained stable compared to first half of 2008 (29.8%).

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 expects increase in sales in the second half of the year, which is related to the business seasonality. There are signs that demand in the Company's markets have stabilized, however general market recovery is not expected sooner than beginning of 2010. To deal with the currently observed

Management report (cont'd)

Prospects (cont'd)

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 and reduction of staff by approximately 10%. Significant resources have been devoted towards review of processes and efficiency improvements. As a result the administrative and distribution costs in the first half of 2009 have decreased by 20% and 8.6% comparing to the same period in 2008.The effect from savings is expected to continue in the second half of 2009.

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' abilitity to solve the liquidity issues. The management has strong belief that furtherly there should not be any considerable defaults by customers.

In spite of the first half year negative results, the company remains financially solid as the results of efforts devoted in previous years strengthening the Company's equity in order to face adverse market conditions.

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, Lenovo 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. 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 mainly 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 – 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.

Management report (cont'd)

Financial risk management (cont'd)

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.

Events after balance sheet date

In August 2009 the Company has announced the suspension of the operation 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 option 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 suspension of the operations in Croatian market will not significanly affects the operations of ELKO Group.

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 30 June 2009.

Egons Mednis

Chairman of the Board,
President
Riga, 14 August, 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 30 June 2009 and of its financial operations for the 6 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, 14 August, 2009

Consolidated balance sheet

	Note	30.06.2009	31.12.2008
ASSETS			
Non-current assets			
Property, plant and equipment		801	996
Intangible assets		177	168
		978	**1,164**
Current assets			
Inventories		77,784	117,403
Current income tax receivable		611	896
Trade and other receivables		68,537	100,889
Cash and cash equivalents		4,028	4,592
		150,960	**223,780**
Total assets		**151,938**	**224,944**
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		1,582	(2,708)
Retained earnings		26,496	52,680
		42,837	**64,731**
Minority interest in equity		**2,271**	**2,255**
Total equity		**45,108**	**66,986**
LIABILITIES			
Non-current liabilities			
Borrowings	5	176	176
		176	**176**
Current liabilities			
Trade and other payables		60,337	60,835
Current income tax liabilities	6	25	545
Borrowings	5	46,112	96,212
Provisions		180	190
		106,654	**157,782**
Total liabilities		**106,830**	**157,958**
Total equity and liabilities		**151,938**	**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-Jun 2009	Jan-Jun 2008
Revenue	2	195,951	363,496
Cost of sales		(189,374)	(346,087)
Gross profit		**6,577**	**17,409**
Distribution costs		(1,550)	(1,454)
Administrative expenses		(5,418)	(5,815)
Other income		1,183	1,036
Other expenses	3	(23,379)	(410)
Operating profit		**(22,587)**	**10,766**
Finance income		43	1,574
Finance costs		(1,482)	(2,227)
Finance income/ (costs) – net		**(1,439)**	**(653)**
Profit before income tax		**(24,026)**	**10,113**
Income tax expense	6	(47)	(626)
Profit for the year		**(24,073)**	**9,487**
Attributable to:			
Equity holders of the Company		(24,170)	9,106
Minority interest		97	381
		(24,073)	**9,487**
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	**(3.51)**	**1.32**

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	Translation 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	-	-	4,290	(2,111)	2,179	(81)	2,098
Profit for the period	-	-		(24,073)	(24,073)	97	(23,976)
Total recognized income and expense for 2009	**-**	**-**	**4,290**	**(26,184)**	**(21,894)**	**16**	**(21,878)**
Dividend relating to 2008	-	-	-	-	-	-	-
Balance at 30 June 2009	**9,785**	**4,974**	**1,582**	**26,496**	**42,837**	**2,271**	**45,108**

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

Consolidated cash flows statement

	Jan-Jun 2009	Jan-Jun 2008
Cash flows from operating activities		
Profit before tax	(24,026)	9,487
Adjustment to reconcile profit before tax to net cash flows		
Depreciation and amortisation	240	184
Interest income	(40)	(15)
Interest expences	1,385	1,397
Movements in allowances	(13)	201
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables	33,534	37,506
(Increase)/Decrease in inventories	41,047	(75,112)
Increase/(Decrease) in trade and other payables	2,479	38,021
Income tax paid	(230)	(1,435)
Net cash used in operating activities	**54,376**	**10,234**
Cash flows from investing activities		
Purchases of fixed assets	(41)	(275)
Interest received	40	15
Net cash used in investing activities	**(1)**	**(260)**
Cash flows from financing activities		
Repayments of borrowings, net	(51,272)	(7,811)
Interest paid	(1,385)	(1,397)
Dividends paid to Company's shareholders	(2,282)	(710)
Net cash generated from financing activities	**(54,939)**	**(9,918)**
Net (decrease) / increase in cash and cash equivalents	**(564)**	**56**
Cash and cash equivalents at beginning of the year	4,592	3,557
Cash and cash equivalents at end of the period	**4,028**	**3,613**

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 6 months ended 30 June 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 statement
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 30 June 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 6 month ended 30 June 2009 are as follows:

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Third-party revenue	17,254	43,574	135,123	-	195,951
Inter-segment revenue	104,354	375	271	(105,000)	-
Revenue	**121,608**	**43,949**	**135,394**	**(105,000)**	**195,951**

The segment results for 6 month ended 30 June 2008 are as follows:

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Third-party revenue	29,095	50,483	283,918	-	363,496
Inter-segment revenue	342,423	873	120	(343,416)	-
Revenue	**371,518**	**51,356**	**284,038**	**(343,416)**	**363,496**

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 30 June 2009 are as follows:

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Assets	127,574	18,979	129,384	(123,999)	151,938

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

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**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 expences increase is mainly related to the increase on the provisions for doubtful receivables in amount of 22.5 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 LVL 1.42 per share (2008: LVL 1.42 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		
Other borrowings	21	-
Finance lease liabilities	155	176
	176	**176**
Current		
Bank borrowings	39,212	88,835
Other borrowings	6,848	7,245
Finance lease liabilities	52	132
	46,112	**96,212**
Total borrowings	**46,288**	**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 6 months ended 30 June 2009 is negative 0.2% (the estimated tax rate for 6 months ended 30 June 2008 was 6.3%). 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 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-Jun 2009	Jan-Jun 2008
Profit attributable to equity holders of the Company	(24,170)	9,106
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (EUR per share)	(3.51)	1.32

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

8. Related party transactions

Transactions with related parties:

The transactions with related parties arise mainly from operating lease transactions. Particularly, rental services EUR 356 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 BALTS for rent of warehousing and office space. The respective office premises are in a construction process with expected completition 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 LVL 202 thousand.

Notes to the consolidated financial statements (continued)

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 (EUR 1,427 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 3,500 (EUR 2,496 thousand) 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 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 June 30, 2009.

11. Subsequent events

In August 2009 the Company has announced the suspension of the operation in Croatian market. The suspension of the operation in Croatian market will not significanly affect the operations of the wholes ELKO Group.

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 30 June 2009.

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.