



## **ELKO GRUPA AS**

Consolidated Financial Statements

For the year ended 31 December 2009

***Structure***

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**General information**

Group name	ELKO GRUPA AS
Legal status of the Group	Joint Stock Company
Unified registration number, place and date of registration	000 312 956 Riga, 14 May, 1993
	Re-registration in Commercial register 2 <sup>ND</sup> December, 2003 with re-registration number 4 000 312 956 4
Registered office	27 Rupniecibas street Riga LV-1045 Latvia
Shareholders	Eurotrail Limited (9,78 %), United Kingdom Whitebarn Limited (9,78 %), United Kingdom IT Investīcijas, AS (35,25 %), Latvia* KRM Serviss, SIA (9,57 %), Latvia Solo Investīcijas IT, SIA (9,11%), Latvia Amber Trust II S.C.A. (17,67 %), Luxemburg East Capital Asset Management AB, domiciled in Sweden, represented by - <i>East Capital Bering Russia fund (3,50 %), Caimans island</i> - <i>Concentra Ltd on behalf East Capital Bering Ukraine fund (3,50 %), Caimans island</i> - <i>Dalepole Ltd on behalf of East Capital Bering New Europe fund (1,84 %), Caimans island</i>
	* In March 2010 IT Investīcijas AS sold its shares to Ashington Business Inc. Ltd (1 214 299 shares i.e. 17.65% shareholding) and Solsbury Inventions Ltd (1 209 967 shares i.e. 17.60% shareholding)
Council Members	Andris Putāns – Chairman of Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member Staņislavs Matvejevs – Council Member (till 30.04.2009) Vairis Brīze – Council Member (till 30.04.2009) Ainis Dābols – Council Member (till 30.04.2009) Valdis Lokenbahs – Council Member (till 30.04.2009)
Board Members	Egons Mednis – Chairman of the Board with powers to represent the Group individually, President Svens Dinsdorfs – Board Member with representation powers jointly with another Board Member, Chief Financial Officer Ilgonis Inspēters – Board Member with representation powers jointly with another Board Member, Director of the Marketing and Business Development Department Jānis Casno – Board Member with representation powers jointly with another Board Member, Chief Executive Director
Reporting year	1 <sup>st</sup> January – 31 <sup>st</sup> December, 2009

**Consolidated statement of comprehensive income**

	Note	2009 EUR '000	2008 EUR '000
<b>Continuing operations</b>			
Sale of goods	11	461,698	719,085
Cost of sales	9	(442,293)	(690,629)
<b>Gross profit</b>		<b>19,405</b>	<b>28,456</b>
Other operating income	7.1	2,329	3,026
Selling and distribution costs	9	(3,530)	(3,838)
Administrative expenses	9	(10,548)	(11,718)
Other operating expenses	7.2	(24,216)	(2,029)
<b>Operating profit/ (loss)</b>		<b>(16,560)</b>	<b>13,897</b>
Finance income		228	172
Finance costs		(2,556)	(4,493)
Finance income/ (costs) – net	8	(2,328)	(4,321)
<b>Profit/ (loss) before tax from continuing operations</b>		<b>(18,888)</b>	<b>9,576</b>
Income tax expense	12	(257)	(865)
<b>Profit/ (loss) for the year from continuing operations</b>		<b>(19,145)</b>	<b>8,711</b>
Attributable to:			
Equity holders of the parent		(18,680)	8,946
Non-controlling interests		(465)	(235)
		<b>(19,145)</b>	<b>8,711</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		523	1,579
<b>Total comprehensive income for the year</b>		<b>(18,622)</b>	<b>10,290</b>
Attributable to:			
Equity holders of the Parent Company		(18,136)	10,401
Non-controlling interests		(486)	(111)
		<b>(18,622)</b>	<b>10,290</b>
Basic and diluted earnings per ordinary share	13	(2.72)	1.30

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.



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Egons Mednis  
Chairman of the Board  
26 March 2010

**Consolidated statement of financial position**

	Note	31.12.2009 EUR '000	31.12.2008 EUR '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	704	996
Intangible assets	16	164	168
		<b>868</b>	<b>1,164</b>
<b>Current assets</b>			
Inventories	18	49,162	117,403
Current income tax receivable	12	424	896
Trade and other receivables	19	61,743	95,541
Prepaid expenses		1,237	1,610
Cash deposits	20	-	704
Cash and cash equivalents	20	3,873	3,888
		<b>116,439</b>	<b>220,042</b>
<b>Total assets</b>		<b>117,307</b>	<b>221,206</b>
<b>EQUITY</b>			
Issued capital	21	9,785	9,785
Share premium	21	4,974	4,974
Translation reserve		607	(2,708)
Retained earnings		31,229	52,680
<b>Equity attributable to equity holders of the Parent Company</b>		<b>46,595</b>	<b>64,731</b>
Non-controlling interests		1,711	2,255
<b>Total equity</b>		<b>48,306</b>	<b>66,986</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	17	68	176
		<b>68</b>	<b>176</b>
<b>Current liabilities</b>			
Trade and other payables	23	33,786	57,417
Interest-bearing loans and borrowings	17	35,020	95,892
Income tax payable	12	3	545
Provisions	22	124	190
		<b>68,933</b>	<b>154,044</b>
<b>Total liabilities</b>		<b>69,001</b>	<b>154,220</b>
<b>Total equity and liabilities</b>		<b>117,307</b>	<b>221,206</b>

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.



Egons Mednis  
Chairman of the Board  
26 March 2010

**Consolidated statement of changes in equity**

	Attributable to equity holders of the Parent Company						
	Issued capital	Share premium	Retained earnings	Transla- tion reserve	Total	Non- controlling interest	Total equity
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Balance at 1 January 2008</b>	<b>9,785</b>	<b>4,974</b>	<b>47,720</b>	<b>(3,880)</b>	<b>58,599</b>	<b>2,764</b>	<b>61,363</b>
Other comprehensive income	-	-	282	1,172	1,454	124	1,578
Profit for the year	-	-	8,947	-	8,947	(235)	8,712
<b>Total comprehensive income for 2008</b>	<b>-</b>	<b>-</b>	<b>9,229</b>	<b>1,172</b>	<b>10,401</b>	<b>(111)</b>	<b>10,290</b>
Dividend relating to 2007	-	-	(4,269)	-	(4,269)	(398)	(4,667)
<b>Balance at 31 December 2008</b>	<b>9,785</b>	<b>4,974</b>	<b>52,680</b>	<b>(2,708)</b>	<b>64,731</b>	<b>2,255</b>	<b>66,986</b>
<b>Balance at 1 January 2009</b>	<b>9,785</b>	<b>4,974</b>	<b>52,680</b>	<b>(2,708)</b>	<b>64,731</b>	<b>2,255</b>	<b>66,986</b>
Other comprehensive income	-	-	(2,771)	3,315	544	(21)	523
Loss for the year	-	-	(18,680)	-	(18,680)	(465)	(19,145)
<b>Total comprehensive income for 2009</b>	<b>-</b>	<b>-</b>	<b>(21,451)</b>	<b>3,315</b>	<b>(18,136)</b>	<b>(486)</b>	<b>(18,622)</b>
Dividend relating to 2008	-	-	-	-	-	(58)	(58)
<b>Balance at 31 December 2009</b>	<b>9,785</b>	<b>4,974</b>	<b>31,229</b>	<b>607</b>	<b>46,595</b>	<b>1,711</b>	<b>48,306</b>

Retained earnings are EUR 31,229 thousand (2008: EUR 52,680 thousand), of which EUR 67 thousand (2008: EUR 61 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.



Egons Mednis  
Chairman of the Board  
26 March 2010

**Consolidated statement of cash flows**

	2009 EUR'000	2008 EUR'000
<b>Operating activities</b>		
(Loss)/ Profit before tax from continuing operations	(18,888)	9,576
Non-cash adjustments to reconcile profit before tax to net cash flows		
Depreciation and impairment of property, plant and	446	387
Amortisation and impairment of intangible assets	46	39
Loss on disposal of property, plant and equipment	22	42
Finance income	(228)	(172)
Finance costs	2,556	4,493
Currency translation difference	523	1,578
Movements in provisions and allowances	21,322	208
Working capital adjustments:		
Decrease in trade and other receivables and prepaid expenses	12,783	44,659
(Increase)/Decrease in inventories	68,241	(19,392)
(Decrease) in trade and other payables	(18,796)	(57,367)
Income tax paid	(327)	(2,558)
<b>Net cash flows from/ (used) in operating activities</b>	<b>67,700</b>	<b>(18,507)</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(189)	(675)
Purchases of intangible assets	(29)	(53)
Purchase of bonds	(950)	-
Proceeds from cash deposits	704	(704)
Interest received	228	172
<b>Net cash flows used in investing activities</b>	<b>(236)</b>	<b>(1,260)</b>
<b>Financing activities</b>		
Proceeds from borrowings	2,856	89,702
Repayments of borrowings	(62,886)	(60,357)
Interest paid	(2,556)	(4,493)
Dividends paid to equity holders of the parent	(4,835)	(4,458)
Dividends paid to non-controlling interests	(58)	(296)
<b>Net cash flows (used in) generated from financing activities</b>	<b>(67,479)</b>	<b>20,098</b>
<b>Net increase in cash and cash equivalents</b>	<b>(15)</b>	<b>331</b>
Cash and cash equivalents at beginning of the year	3,888	3,557
<b>Cash and cash equivalents at end of the year</b>	<b>3,873</b>	<b>3,888</b>

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.

## ***Notes to the consolidated financial statements***

### **1 General information**

ELKO Grupa AS ("the Parent Company") and its subsidiaries (together "the Group") principal activity is wholesale distribution of computer desktop components, notebooks, monitors, peripherals, multimedia, consumer and solution products, using the wide network of the Group companies and cooperation partners, representing a broad range of vendors of these products all over the world. The selection includes products from a range of vendors, including Intel, Seagate, Western Digital, Hitachi, Acer, Sony, Toshiba, Samsung and Asus.

The Parent Company is a joint stock company incorporated and domiciled in Latvia with company's registered office at Rupniecibas str, 27, Riga, LV-1045, Latvia. These consolidated financial statements have been prepared for issue by the Management on 26 March 2010 and signed on its behalf by the Chairman of the Board Egons Mednis.

The financial statements are subject to the approval of the shareholders in general meeting.

The Parent Company has the following participating interests in its subsidiaries:

Name	Country	Participating interest in share capital of subsidiaries	
		31.12.2009	31.12.2008
		%	%
ELKO Eesti AS	Estonia	100%	100%
WESTech s.r.o.	Slovakia	51%	51%
ELKOTech Romania SA	Romania	51%	51%
ELKO Latvija SIA	Latvia	100%	100%
ELKOTEX d.o.o.	Slovenia	51%	51%
ELKOTECH d.o.o.	Croatia	70%	70%
ELKO Kaunas UAB	Lithuania	100%	100%
ELKO Trading Switzerland AG	Switzerland	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%
Statex Consulting Limited	Cyprus	100%	100%
Alma Limited	Russia	100%	100%



Notes to the consolidated financial statements (continued)

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in euros (EUR) and all values are rounded to the nearest thousand (EUR 000) except when otherwise indicated.

#### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as adopted by the EU.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and all its subsidiaries as at the 31<sup>st</sup> of December each year.

#### Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Group obtains control until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

#### Intra-Group transactions and non-controlling interests

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated in full. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals of non-controlling interests result in gains and losses for the Group that are recorded in the statement of the comprehensive income. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to the consolidated financial statements (continued)

## 2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009
- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010 (early adopted)
- IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009
- IFRS 8 *Operating Segments* effective 1 January 2009
- IAS 1 *Presentation of Financial Statements* effective 1 January 2009
- IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009 (early adopted)
- IFRIC 9 *Remeasurement of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009
- IFRIC 13 *Customer Loyalty Programmes* effective 1 July 2008
- IFRIC 15 *Agreement for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008
- IFRIC 18 *Transfers of Assets from Customers* effective 1 July 2009 (early adopted)
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009, early adopted)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

### **IFRS 7 Financial Instruments: Disclosures**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 17. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 5.1.3.

### **IFRS 8 Operating segments**

IFRS 8 replaced IAS 14 *Segment reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 6.

### **IAS 1 Presentation of Financial Statements**

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

### **IAS 23 Borrowing Costs**

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. During the 12 months to 31 December 2009, no borrowing costs have been capitalised since there was no expenditure on qualifying assets.

Notes to the consolidated financial statements (continued)

### Improvements to IFRSs

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment did not have any effect on the financial statements.

*IFRS 8 Operating Segment Information:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 6.

*IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

*IAS 7 Statement of Cash Flows:* Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment did not have any effect on the financial statements.

*IAS 16 Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

*IAS 18 Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group.

*IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

*IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (continued)

IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based Payment*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments in Associates*
- IAS 31 *Interest in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 40 *Investment Properties*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

### 2.3 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). For the majority of the Group companies, the functional currency is USD dollar. For the reporting purposes the Company has chosen euros (EUR) as reporting currency in accordance with the regulation of Riga Stock Exchange.

#### Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statement of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### Group companies

The assets and liabilities of foreign operations are translated into U.S.dollars at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at the average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

Notes to the consolidated financial statements (continued)

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 2.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

### Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

### Rendering of services

The Group generates income from providing marketing and transport agency services. Since these services do not comprise Group's core business, the income is classified as other income in the statement of comprehensive income. These services are provided based on agreed time and material costs incurred or as a fixed-price contract. Revenue from fixed-price contracts for delivering transportation services is generally recognised by reference to the stage of completion of the service, Revenue from time and material contracts is recognized at contractual rates as direct expenses are incurred.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

### Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

### Dividends

Revenue is recognised when the Group's right to receive the payment is established.

### Other income

Income from penalties charged to clients is recognized at the moment of receipt. Penalties represent mostly charges to customers for late payments.

## 2.5 Taxes

### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Notes to the consolidated financial statements (continued)

### Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the consolidated financial statements (continued)

## 2.6 Financial instruments – initial recognition and subsequent measurement

### Financial assets

#### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and loans.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

#### *Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Notes to the consolidated financial statements (continued)

## Financial liabilities

### ***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

### ***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

#### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

### ***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## **2.7 Property, plant and equipment**

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for longterm construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

IT equipment	2 years
Other	4-5 years



Notes to the consolidated financial statements (continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

## 2.8 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

### Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

## 2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 2.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed at 5 years.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Notes to the consolidated financial statements (continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

### **2.11 Inventories**

Inventories are valued at the lower of cost and net realisable value, Cost is determined using the weighted average method. The cost of goods comprises acquisition costs, additional expenses related to transportation, import duties for environmental protection and insurance as well as any discounts and allowances granted by vendors. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Estimated selling price is based upon an aging analysis of the inventory on hand, technological obsolescence, the nature of vendor relations and assumptions about future demand.

### **2.12 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cashgenerating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### **2.13 Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Notes to the consolidated financial statements (continued)

## 2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## 2.15 Share capital and dividend distribution

Ordinary shares are classified as equity. The Parent Company has issued only ordinary shares.

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Group's financial statements in the period, in which the dividends are approved by the Parent Company's shareholders.

## 2.16 Warranties

The Group's vendors generally warrant the products distributed by the Group and allow returning defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs occur along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and is periodically adjusted to reflect actual experience.

## 2.17 Vendor programs

The Group receives funds from vendors in a form of credit notes for price protection, product rebates, marketing and other product promotions. The credit notes for price protection are booked as decrease of the cost value of the inventory. The credit notes for rebates are recognized directly in statement of comprehensive income as decrease of cost of sales. The credit notes for marketing and other product promotion are recognized as other revenue. Some of these programs may extend over one or more reporting periods. Rebates or other vendor incentives are recognized as earned based on sales of respective products or as services are provided in accordance with the terms of the related program.

## 2.18 Pension obligations

The Group companies do not operate any pension plans other than those required by the applicable legislations in the respective countries. The Group companies pay social security contributions to the state social security funds (the Funds) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements.

A defined contribution plan is a plan under which Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

## 2.19 Going concern

According to the financial covenants in the loan and bond agreements the Parent Company and the Group has to maintain certain financial ratios. The main financial covenants are related to maintaining certain liquidity ratios, gearing ratios and profitability ratios. During the year the Parent Company and the Group has failed to comply with the financial covenant on certain profitability ratio. According to IFRS 7.19 and prudence principle if the Group is in breach of financial covenants the loans and bonds payable should be disclosed as short term

Notes to the consolidated financial statements (continued)

(please see note 17). During 2010 AS DNB Nord Bank has confirmed that they do not have an intention to reclaim the outstanding loan at once due to breach of financial covenants. Accordingly, these consolidated financial statements for the year ended 31 December 2009 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union.

Furthermore the operations of the Group are considerably dependant on the operations in CIS region, accordingly as described in Note 5.1.4 the future operations of the Group can be affected by legislative risk aspects in CIS countries.

### **3 Significant accounting judgments, estimates and assumption**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### **3.1 Vendor programs**

The Group has to apply use of estimates about the credit notes due from vendors at the date of the statement of financial position based on the available information and past experience. In several vendor programs the size of the rebate is dependent on the performance of other distributors and is known exclusively by the vendor.

An estimate of a receivable from vendors in relation to the vendors programs as of 31 December 2009 amounted to EUR 3,847 thousand (2008: EUR 3,002 thousand) based on the individual vendor agreements.

The Group does not expect any material additional unrecognized rebate to be received related to year 2009.

#### **3.2 Income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made (Note 12).

#### **3.3 Impairment of inventories**

The Group is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most of the Group's vendors to protect distributors from the loss in value of inventory due to technological change or the vendors' price reductions.

However, the price protection to distributors is at vendors' discretion, accordingly, there are instances when vendors might be unable or unwilling to compensate the Group for price protection claims.

The outstanding price protection claims are EUR 65 thousand (2008: EUR 83 thousand).

Significant judgment is applied, when estimating the net realizable value of inventory. Incorrect assumptions could be made about the state of technological obsolescence, the nature of vendor relations and future demand (Note 18).

Notes to the consolidated financial statements (continued)

### 3.4 Impairment of trade receivables

Significant judgment is applied, when estimating the provisions for impairment of trade receivables (Note 19).

### 3.5 Warranty provisions

The Group's vendors generally warrant the products distributed by the Group and allow returning defective products, including those that have been returned to the Group by its customers. Based on the past experience and the contractual agreements with vendors, the Group assesses that the receipt of the reimbursement from vendors is virtually certain. The Group does not independently warrant the products it distributes. Historically the Group has not incurred any significant service warranty costs. The costs are incurred along the process of handling the returned goods. A provision for these estimated costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The amount of provision with respect to warranties is disclosed in Note 22.

### 3.6 Revenue recognition

The Group's sales to CIS and other countries segment (Note 6) are performed to the end customers using a number of intermediaries. The customers perceive the Group as a seller of the goods, the intermediaries in substance do not assume general inventory risk and usually the payments are made by the intermediaries to the Group after the intermediaries have received cash from the customers. Based on the above the management has concluded that the intermediaries act as agents and the Group recognizes revenue after the intermediaries have sold goods to the customers. The goods that have been legally sold but for which no revenue is yet recognized are included in Inventories as consignment inventories (Note 18).

## 4 Standards issued but not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

**Amendment to IFRS 2 Share-based Payment** (effective for financial years beginning on or after 1 January 2010)

The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

**Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements** (effective for financial years beginning on or after 1 July 2009)

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

**IFRS 9 Financial Instruments** (effective for financial years beginning on or after 1 January 2013, once adopted by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group has not estimated yet the impact of the implementation of this standard.

Notes to the consolidated financial statements (continued)

**Amendments to IAS 24 *Related Party Disclosures*** (effective for financial years beginning on or after 1 January 2011, once adopted by the EU)

The amendments simplify the definition of a related parties, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

**Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*** (effective for financial years beginning on or after 1 February 2010)

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

**Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for financial years beginning on or after 1 January 2011, once adopted by the EU)

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

**IFRIC 17 *Distributions of Non-cash Assets to Owners*** (effective for financial years beginning on or after 1 July 2009)

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have any impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

**IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*** (effective for financial years beginning on or after 1 April 2010, once adopted by the EU)

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

## 5 Financial risk management objectives and policies

### 5.1 Financial risk factors

The Group's activities provide exposure to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance management of the Group both under policies approved and separate decisions made by the Board of Directors. It identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

#### 5.1.1 Market risk

##### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising primarily with respect to the US dollar changes towards the EUR and other currencies tied to EUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The purchase of goods from vendors is predominantly done in US dollars. The sales from the Parent Company to subsidiaries are done in US dollars. The sales to customers are carried out by the subsidiaries in the respective local currencies, except for ELKO Trading Switzerland AG, whose sales are done in US dollars. Although the subsidiaries carry out the sales in the local currencies, the prices in the market tend to follow the purchasing currency i.e. US dollars, ELKO Trading Switzerland sales in US dollars and its significant weight in the Group's sales result in the fact, that trade payables and receivables have very similar structure in terms of currency composition (Notes 19 and 23).

Notes to the consolidated financial statements (continued)

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As at 31 December 2009, the Group did not have any hedging agreements.

The following table demonstrates the sensitivity to a reasonably possible change of the US dollar exchange rate to other currencies used by the Group, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets and liabilities, forward exchange contracts and net investment hedges).

Increase / decrease in US dollar rate to EUR	Effect on profit ( <sup>'000</sup> )	Effect on equity ( <sup>'000</sup> )
<b>2009</b>		
+5%	63	63
-5%	(63)	(63)
<b>2008</b>		
+5%	68	68
-5%	(68)	(68)

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term borrowings to finance a part of its working capital needs, which exposes the Group's income and operating cash flows towards the changes in market interest rates. Borrowings are taken in a form of credit lines. During 2009, the Group's borrowings at variable rates were predominantly denominated in US dollars and Euro (Note 17).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

	Increase / decrease in basis points	Effect on profit before tax ( <sup>'000</sup> )
<b>2009</b>	+10	30
	- 10	(30)
<b>2008</b>	+10	89
	- 10	(89)

#### 5.1.2 Credit risk

Credit risk is managed on a Group basis by implementing centralised procedures and control. Credit risk arises from the credit exposure to outstanding trade receivables (Note 19 to trade and other receivables). The Group minimizes these risks through credit risk insurance and conservative credit policy. 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. The requirement for impairment is assessed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables is grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data.

The maximum exposure as at 31 December 2009 is EUR 60,468 thousands (2008: EUR 85,680 thousand).

Notes to the consolidated financial statements (continued)

### 5.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments:

<b>Year ended 31/12/2009</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Non-current borrowings	-	-	-	71	71
Current borrowings	-	36,543	-	-	36,543
Trade and other payables	-	33,786	-	-	33,786

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments:

<b>Year ended 31/12/2008</b>	<b>On demand</b>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Total</b>
Non-current borrowings	-	-	-	188	188
Current borrowings	-	99,930	-	-	99,930
Dividends	4,835	-	-	-	4,835
Trade and other payables	-	52,582	-	-	52,582

### 5.1.4 Legislative risk

The Group has used, and continues to use, a variety of third-party entities in which it does not hold any direct or indirect equity interest to facilitate the import of products into Russia and Ukraine. In the Eastern European countries the tax legislation and rulings are still subject to frequent change, and are consequently not as stable as the tax practices in most of the Western world countries. In the event that Russian and/or Ukrainian tax authorities choose to take a more aggressive position in their interpretation and enforcement of tax legislation, the Group might be held liable in case of a failure of a third party to comply with the interpretations of the authorities in Russia and/or Ukraine. Any estimate of a likelihood of any liability arising as a result of the Russian or Ukrainian tax enforcement, its effect on the financial position of the Group or the maximum amount cannot be reasonably assessed. Historically no such claims have arisen. Sales of products to Russian and Ukrainian customers are disclosed in Note 6.

## 5.2 Fair value estimation

The carrying value of trade receivables, other receivables, payables and other payables approximates fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices.



Notes to the consolidated financial statements (continued)

### 5.3 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the financial years presented.

According to legal requirements the board has to ask for shareholder meeting to deal with going concern issue if equity falls below 50% of total capital.

The Group monitors capital using the following ratios:

	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Consolidated financials</b>		
Equity without non- controlling Interest	46,595	64,731
Total assets	117,307	221,206
<b>Equity ratio</b>	<b>40%</b>	<b>29%</b>
Net Debt*	31,215	91,476
Total equity	48,306	66,986
<b>Net Liabilities/ Equity</b>	<b>0.65</b>	<b>1.37</b>

\* Net debt is calculated as all borrowings less cash and deposits.

Notes to the consolidated financial statements (continued)

## 6 Operating segment information

The Group is organized into three reportable segments by location of customers:

- The Baltic area relates to Latvia, Lithuania and Estonia;
- Central and Eastern Europe area relates to Slovakia, Slovenia, Romania and Croatia;
- 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 Parent Company. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed by the Parent Company at the corporate level and are included in the Baltic segment.

Therefore, the Group measures 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 <sup>1)</sup>	Central and Eastern Europe <sup>2)</sup>	CIS and other countries	Adjustments and eliminations <sup>3)</sup>	Group
Third-party revenue	35,428	96,143	330,127	-	461,698
Inter-segment revenue	275,221	144	-	(275,365)	-
<b>Revenue</b>	<b>310,649</b>	<b>96,287</b>	<b>330,127</b>	<b>(275,365)</b>	<b>461,698</b>
Operating profit / Segment result	253	(859)	(16,858)	904	(16,560)

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

	The Baltic <sup>1)</sup>	Central and Eastern Europe <sup>2)</sup>	CIS and other countries	Adjustments and eliminations <sup>3)</sup>	Group
Third-party revenue	68,471	101,880	548,734	-	719,085
Inter-segment revenue	601,131	1,498	18,490	(621,119)	-
<b>Revenue</b>	<b>669,602</b>	<b>103,378</b>	<b>567,224</b>	<b>(621,119)</b>	<b>719,085</b>
Operating profit / Segment result	5,925	(472)	8,532	(88)	13,897

<sup>1)</sup> Majority of sales are done from Domicile country – Latvia.

<sup>2)</sup> In 2009 due to adverse market perspectives and growth possibilities in Croatian market the management of the Group has decided to close the operations of ELKOTECH d.o.o. (Croatia). The sales of ELKOTECH Croatia constituted around 1.6% of total Group's turnover. The management of the Group plans to liquidate the respective entity during the year 2010.

<sup>3)</sup> Inter-segment revenues as well as realized/(unrealized) profits on unsold inventory intercompany and loss on accounts receivables are eliminated on consolidation.

There are no single end-customer or group of end-customers that exceed 10%

Notes to the consolidated financial statements (continued)

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables. Segment liabilities comprise operating liabilities, borrowings and other payables. Capital expenditure comprises additions to equipment (Note 15) and intangible assets (Note 16).

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year ended are as follows:

	<b>Year ended</b>				<b>Group</b>
	<b>31 December 2009</b>				
	The Baltic <sup>1)</sup>	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations <sup>2)</sup>	
Assets	96,570	15,792	103,863	(98,918)	117,307
Liabilities	65,242	12,927	90,621	(99,789)	69,001
Capital expenditure (Note 16)	8	21	-	-	29
Amortisation (Note 16)	20	26	-	-	46
Capital expenditure (Note 15)	76	113	-	-	189
Depreciation (Note 15)	325	121	-	-	446

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

	<b>Year ended</b>				<b>Group</b>
	<b>31 December 2008</b>				
	The Baltic <sup>1)</sup>	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations <sup>2)</sup>	
Assets	175,150	24,255	198,316	(176,515)	221,206
Liabilities	141,651	20,044	167,329	(174,804)	154,220
Capital expenditure (Note 16)	26	27	-	-	53
Amortization (Note 16)	16	23	-	-	39
Capital expenditure (Note 15)	421	254	-	-	675
Depreciation (Note 15)	262	125	-	-	387

<sup>1)</sup> The majority of the assets and the liabilities relates to Domicile country – Latvia.

<sup>2)</sup> The adjustments and eliminations practically include only elimination of the intercompany receivables and payables

The distribution of the revenue by the product groups is disclosed in Note 11.

Notes to the consolidated financial statements (continued)

**7 Other income/expenses****7.1 Other operating income**

	<b>2009</b>	<b>2008</b>
Income from services provided	2,259	2,920
Gain from disposal of fixed assets	7	38
Other income	63	68
	<b>2,329</b>	<b>3,026</b>

**7.2 Other operating expenses**

	<b>2009</b>	<b>2008</b>
Provisions for bad debts*	22,164	38
Net loss from foreign exchange influence	1,547	1,160
Direct operating expenses arising on providing services	167	222
Penalties and similar expenses	46	403
Other expenses	292	206
	<b>24,216</b>	<b>2,029</b>

\* Due to overall economic crisis the Group had evaluate its assets more critically. As a result the Group had to recognise provisions for bad debts in the amount of 22.2 million EUR. The majority of the amounts provided relate to the CIS region.

**8 Finance income and costs**

	<b>2009</b>	<b>2008</b>
Interest expense:		
– Bank borrowings	(1,900)	(3,820)
– Bonds	(652)	(652)
– Other interests	(4)	(21)
Finance costs	<b>(2,556)</b>	<b>(4,493)</b>
Finance income:		
– Interest income on short-term bank deposits	70	122
– Other interest income	158	50
Finance income	<b>228</b>	<b>172</b>
Net finance costs	<b>(2,328)</b>	<b>(4,321)</b>

**9 Expenses by nature**

	<b>2009</b>	<b>2008</b>
Trade inventory sold	442,293	690,629
Employee benefit expense	7,036	8,123
Rent and office maintenance expenses	1,316	1,242
Transportation expenses	957	939
Warehousing expenses	914	876
Advertising costs	652	1,016
Professional fees	514	1,646
Depreciation and amortisation charges (Notes 15, 16)	492	426
Write-off of damaged goods (Note 18)	234	454
Other expenses	1,963	834
	<b>456,371</b>	<b>706,185</b>

Notes to the consolidated financial statements (continued)

**10 Employee benefit expense**

	<b>2009</b>	<b>2008</b>
Wages and salaries	5,650	6,296
Social security costs	1,347	1,500
Other employment benefits	39	327
	<u><b>7,036</b></u>	<u><b>8,123</b></u>

Employees involved in the sales functions are subject to a partial variable remuneration based on the sales performance.

**11 Sale of goods**

	<b>2009</b>	<b>2008</b>
Desktop components	197,131	335,219
Notebooks	155,343	242,590
Solution products	38,679	39,842
Monitors	27,736	50,415
Consumer and multimedia	38,687	34,698
Peripherals	4,118	16,292
Other	4	29
	<u><b>461,698</b></u>	<u><b>719,085</b></u>

**12 Income tax**

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

**Consolidated statement of comprehensive income**

	<b>2009</b>	<b>2008</b>
<b>Current income tax:</b>		
Current income tax charge	257	881
<i>Deferred tax :</i>		
Relating to origination and reversal of temporary differences	-	(16)
	<u><b>257</b></u>	<u><b>865</b></u>

**Consolidated statement of financial position**

	<b>2009</b>	<b>2008</b>
Current income tax receivable	424	896
Current income tax payable	(3)	(545)
<b>Current income receivable, net</b>	<u><b>421</b></u>	<u><b>351</b></u>

The tax charge differs from the theoretical amount that would arise using the tax rate applicable to the Company to the Group's profit before tax as follows:

	<b>2009</b>	<b>2008</b>
<b>Accounting profit before income tax</b>	<u><b>(18,888)</b></u>	<u><b>9,576</b></u>
At Latvia's statutory income tax rate of 15%	(2,833)	1,436
Effect of different tax rates in other countries and related unrecognized deferred tax assets	2,889	(279)
Income not subject to tax	(54)	(433)
Expenses not deductible for tax purposes	279	168
Tax discount for donations	(24)	(27)
Tax charge	<u><b>257</b></u>	<u><b>865</b></u>

Notes to the consolidated financial statements (continued)

### 13 Earnings per share

The Group 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 net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>2009</b>	<b>2008</b>
Profit attributable to equity holders of the Parent Company	(18,680)	8,946
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (EUR per share)	<u>(2.72)</u>	<u>1.30</u>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

### 14 Dividends per share

During the year the shareholders have decided on the distribution of the dividends on prior year retained earnings in amount of EUR 0 thousand, in 2008 EUR 4,269 thousand (EUR 0.62 per share).

Notes to the consolidated financial statements (continued)

**15 Property, plant and equipment**

	<b>Leasehold improvements</b>	<b>Communication and computer engineering</b>	<b>Other fixed assets</b>	<b>Total</b>
<b>At 31 December 2007</b>				
Cost	226	679	1,604	2,509
Accumulated depreciation	(212)	(521)	(1,016)	(1,749)
<b>Net book amount</b>	<b>14</b>	<b>158</b>	<b>588</b>	<b>760</b>
<b>Year ended 31 December 2008</b>				
Opening net book amount	14	158	588	760
Exchange differences	(2)	(4)	(4)	(10)
Additions	-	247	428	675
Disposals at cost	(204)	(128)	(572)	(904)
Depreciation reversal on disposals	204	128	530	862
Depreciation charge (Note 9)	(10)	(145)	(232)	(387)
Reclassification	-	23	(23)	-
<b>Closing net book amount</b>	<b>2</b>	<b>279</b>	<b>715</b>	<b>996</b>
<b>At 31 December 2008</b>				
Cost	20	817	1,433	2,270
Accumulated depreciation	(18)	(538)	(718)	(1,274)
<b>Net book amount</b>	<b>2</b>	<b>279</b>	<b>715</b>	<b>996</b>
<b>Year ended 31 December 2009</b>				
Opening net book amount	2	279	715	996
Exchange differences	-	(7)	(5)	(12)
Additions	-	70	119	189
Disposals at cost	-	(20)	(91)	(111)
Depreciation reversal on disposals	-	19	88	107
Depreciation charge (Note 9)	(1)	(200)	(245)	(446)
Reclassification	-	-	(19)	(19)
<b>Closing net book amount</b>	<b>1</b>	<b>141</b>	<b>562</b>	<b>704</b>
<b>At 31 December 2009</b>				
Cost	20	860	1,437	2,317
Accumulated depreciation	(19)	(719)	(875)	(1,613)
<b>Net book amount</b>	<b>1</b>	<b>141</b>	<b>562</b>	<b>704</b>

Depreciation expenses of tangible assets in the amount of EUR 446 thousand (2008: EUR 387 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses.

All tangible assets have been pledged to secure bank credit lines (Note 17).

**Finance leases**

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2009 was EUR 189 thousand (2008: EUR 310 thousand). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Notes to the consolidated financial statements (continued)

**16 Intangible assets**

	<u>Software</u>
<b>At 31 December 2007</b>	
Cost	571
Accumulated amortisation	<u>(407)</u>
<b>Net book amount</b>	<b><u>164</u></b>
Year ended 31 December 2008	
Opening net book amount	164
Exchange differences	(10)
Additions	53
Amortisation charge (Note 9)	(39)
Disposals at cost	(111)
Amortisation reversal on disposal	<u>111</u>
<b>Closing net book amount</b>	<b><u>168</u></b>
At 31 December 2008	
Cost	503
Accumulated amortisation	<u>(335)</u>
Net book amount	<b><u>168</u></b>
Year ended 31 December 2009	
Opening net book amount	168
Exchange differences	(6)
Additions	29
Amortisation charge (Note 9)	(46)
Disposals at cost	(15)
Amortisation reversal on disposal	15
Reclassification	<u>19</u>
<b>Closing net book amount</b>	<b><u>164</u></b>
At 31 December 2009	
Cost	530
Accumulated amortisation	<u>(366)</u>
Net book amount	<b><u>164</u></b>

Amortisation expenses of intangible assets in the amount of EUR 46 thousand (2008: EUR 39 thousand) have been charged in statement of comprehensive income and are shown in administrative expenses.

All intangible assets have been pledged to secure bank credit lines (Note 17).



Notes to the consolidated financial statements (continued)

**17 Interest-bearing loans and borrowings**

<b>Current</b>	<b>Interest rate %</b>	<b>Maturity</b>	<b>31.12.2009 EUR '000</b>	<b>31.12.2008 EUR '000</b>
<b>Obligations under finance lease and hire purchase contracts</b>	EURIBOR + 3,25%	2010/2009	109	132
<b>Bank overdrafts</b>				
Credit line from AS DnB Nord Banka (Latvia) <sup>1)</sup>	USD LIBOR3M + 3%	28.09.2010	10,437	10,565
Credit line from AS DnB Nord Banka (Latvia) <sup>1)</sup>	USD LIBOR3M + 3%	28.09.2010	16,060	69,122
Credit line from Volksbank a.s. (Slovakia)	USD LIBOR1M +1,75%	30.04.2010	1,043	-
Credit line from Volksbank a.s. (Slovakia)	USD LIBOR1M + 0,55%	30.04.2009	-	2,661
Credit line from UniCredit Tiriac Bank (Romania)	EURIBOR1M +4,1%	10.06.2010	1,113	-
Credit line from UniCredit Tiriac Bank (Romania)	EURIBOR O/N +3,5%	27.11.2009	-	2,543
Credit line from SKB D.D. (Slovenia)	EURIBOR6M + 3,3%	17.12.2010	700	-
Credit line from SKB D.D. (Slovenia)	EURIBOR6M + 1,65%	06.11.2009	-	775
<b>Other loans:</b>				
Bonds <sup>2)</sup> (Latvia)	10% p,a (fixed interest rate)	29.11.2010	5,550	6,500
Loan from GE Money Bank (Latvia)	USDLIBOR3M +1,1%	30.03.2009	-	3,169
Other loans from ELBATEX (Slovenia) in EUR	5,642 %	24.12.2009	-	397
Other - CIM, credit cards (Latvia)			8	28
Other – credit cards (Estonia)			-	-
			<b>35,020</b>	<b>95,892</b>
<b>Non-current</b>				
Obligations under finance lease and hire purchase contracts	EURIBOR + 3,25%	28.11.2011	68	176
			<b>68</b>	<b>176</b>
			<b>35,088</b>	<b>96,068</b>

<sup>1)</sup> At the end of the year the Parent Company and the Group have failed to comply with the financial covenants on profitability. As a result the Parent Company was in breach of the credit line agreement's covenants with AS DnB Nord Banka (Latvia). The Parent Company's management has ongoing negotiations with the bank on new terms. Please see also Note 2.19 Going concern.

<sup>2)</sup> In 2009 as part of the agreement the Group acquired 9,500 of their own bonds from the bond holders for the nominal amount EUR 100. In the statement of the financial position the acquired bonds are netted with the liabilities to bond holders for the issued ELKO Grupa AS bonds. The Group intends to keep the assets till the maturity i.e. 29<sup>th</sup> November 2010.

Notes to the consolidated financial statements (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	<b>31.12.2009</b>	<b>31.12.2008</b>
USD	27,540	85,566
EUR	7,540	10,499
Other	8	3
	<b>35,088</b>	<b>96,068</b>

Most of the borrowings are provided in a form of bank credit lines amounting to EUR 29,354 thousand (2008: EUR 85,621 thousand). Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 15, 16, 18 and 19). The fair value of current borrowings approximates their carrying amount, as they bear floating interest rates and the impact of discounting is not significant. The average effective interest rate on the bank borrowings as at 31 December 2009 was 4.35% (2008: 4.47 %).

### Finance leases

The present value of finance lease liabilities is as follows:

	<b>31.12.2009</b>	<b>31.12.2008</b>
No later than 1 year	109	132
Later than 1 year and no later than 5 years	68	176
	<b>177</b>	<b>308</b>
Finance lease liabilities – minimum lease payments:		
No later than 1 year	113	140
Later than 1 year and no later than 5 years	71	188
	184	328
Future finance charges on finance costs	(7)	(20)
Present value of finance lease liabilities	<b>177</b>	<b>308</b>

The effective interest rate on the finance leases as at 31 December 2009 was 3.95 % (2008: 6.30%).

## 18 Inventories

	<b>31.12.2009</b>	<b>31.12.2008</b>
Trade inventory at cost	48,961	116,430
Trade inventory in transit	189	708
Prepayments for trade inventory	12	304
Allowance for impairment of inventory	-	(39)
<b>Total inventories at the lower of cost and net realisable value</b>	<b>49,162</b>	<b>117,403</b>

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. As such estimates are continuously evaluated; it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs. Write-downs for damaged and missing inventory amount to EUR 234 thousand (2008: EUR 454 thousand) and are charged to distribution costs in the statement of comprehensive income (Note 9).

The cost of inventories recognised as expense and included in cost of sales amounted to EUR 442,293 thousand (2008: EUR 690,629 thousand). All inventories except for trade inventory in transit have been pledged to secure bank credit lines (Note 17).

Of the total inventories consignment inventories as at 31 December 2009 was EUR 26,666 thousand (2008: EUR 81,679 thousand).

Notes to the consolidated financial statements (continued)

**19 Trade and other receivables**

	<b>31.12.2009</b>	<b>31.12.2008</b>
Trade receivables	82,164	94,889
Less: allowance for impairment of trade receivables	(21,696)	(308)
Trade receivables – net	<b>60,468</b>	<b>94,581</b>
VAT receivable	739	627
Other debtors	493	296
Accrued income	36	-
Other tax receivable in foreign countries	6	36
Personal income tax receivable	1	1
	<b>61,743</b>	<b>95,541</b>

All trade receivables have been pledged to secure bank credit lines (Note 17).

Trade receivables are non-interest bearing and are generally on 7-90 days' terms.

As at 31 December, the ageing analysis of net trade receivables is as follows:

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired*</b>		
			<b>&lt;90 day</b>	<b>90-180 day</b>	<b>&gt;180 day</b>
<b>31.12.2009</b>	60,468	48,235	7,233	2,574	2,426
<b>31.12.2008</b>	94,581	56,796	37,780	5	-

\* The Group has evaluated the receivable according to IAS 39 evaluating each overdue receivable individually. Based on further business performance of the debtors in 2010 and improved incoming cash flows from the respective non impaired receivables, the management evaluated these receivables and noted that the impairment is not necessary.

Considerable part of the outstanding receivables that are overdue and are not impaired have been insured and currently the Group awaits the decision of the insurance companies to settle the insurance cases.

Movements in the allowance for impairment of trade receivables are as follows:

	<b>2009</b>	<b>2008</b>
<b>At 1 January</b>	308	171
Impairment charge (individual basis)	22,007	308
Receivables written off during the year as uncollectible	(619)	(171)
<b>At 31 December</b>	<b>21,696</b>	<b>308</b>

The creation and release of allowance for impaired receivables have been included in administrative costs in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the consolidated financial statements (continued)

**20 Cash and short-term deposits**

	<b>31.12.2009</b>	<b>31.12.2008</b>
Cash at banks and on hand	3,873	3,888
Short-term deposits	-	704
	<u><b>3,873</b></u>	<u><b>4,592</b></u>

The effective interest rate on the cash deposits as at 31 December 2008 was 4.36%. Deposited EUR 704 (USD 1,000) thousands for period 03.10.2008-03.04.2009.

**21 Issued capital and reserves****21.1 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 were no share options in any of the years presented. All issued shares were purchased by cash contribution.

**21.2 Share Premium**

During 2005 share capital was increased, attracting new shareholders. As a result of share capital increase and attraction of new shareholders, share premium reserve in amount of EUR 4,974 thousand was created.

**21.3 Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

**22 Provisions**

	<b>2009</b>	<b>2008</b>
<b>Beginning of year</b>	190	158
Charged / (credited) to the statement of comprehensive income:		
– Additional provisions	-	85
– Used during year	(66)	(53)
<b>End of year</b>	<u><b>124</b></u>	<u><b>190</b></u>

Provisions represent expected costs with regards to handling warranty process of the sold goods.

Notes to the consolidated financial statements (continued)

**23 Trade and other payables**

	<b>31.12.2009</b>	<b>31.12.2008</b>
Trade payables	31,697	50,228
Social security and other taxes	835	968
Unpaid dividends	-	4,835
Unpaid salaries	63	125
Other	235	238
Accrued expenses	956	1,023
	<b>33,786</b>	<b>57,417</b>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and normally have 30 to 45 day terms;
- Other payables are non-interested bearing and have an average term of 30 days;
- Interest payable is normally settled monthly throughout the financial year;
- For terms and conditions relating to related parties, refer to Note 24.

**24 Fair value**

Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2009, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of the bonds approximated to its book value.

**25 Related party disclosures**

There are no ultimate controlling parties of the Group, The shareholders of the Company are as follows:

	% for Share Capital	
	<b>31.12.2009</b>	<b>31.12.2008</b>
Eurotrail Limited, domiciled in United Kingdom	9.78	-
Whitebarn Limited, domiciled in United Kingdom	9.78	-
KRM Serviss, SIA, domiciled in Latvia	9.57	-
Solo investīcijas, SIA, domiciled in Latvia	9.11	-
Egons Mednis, President of Company	-	9.57
Andris Putans, Chairman of the Council	-	9.79
Eriks Strods, Member of the Council	-	9.10
Kaspars Viskints, Member of the Council	-	9.79
IT Investīcijas AS, domiciled in Latvia*	35.25	35.25
Amber Trust II S,C,A,, domiciled in Luxemburg	17.67	17.67
East Capital Asset Management AB, domiciled in Sweden, represented by:	8.84	8.83
- East Capital Bering Russia fund, Caimans island	3.50	3.50
- Concentra Ltd on behalf East Capital Bering Ukraine fund, Caimans island	3.50	3.50
- Dalepole Ltd on behalf of East Capital Bering New Europe fund, Caimans island	1.84	1.83

\* In March 2010 the IT Investīcijas AS sold its shares to Ashington Business Inc. Ltd (1 214 299 shares i.e. 17.65% shareholding) and Solsbury Inventions Ltd (1 209 967 shares i.e. 17.60% shareholding)

Notes to the consolidated financial statements (continued)

### 25.1 Key management compensation

The members of the Council do not receive any remuneration. The members of the Board of Directors were entitled to a remuneration of EUR 252 thousand (2008: EUR 236 thousand).

	2009	2008
The Board members' remuneration:		
- salary expenses	204	191
- social insurance	48	45
	<b>252</b>	<b>236</b>

### 25.2 Transactions with related parties:

The payables to related parties arise mainly from operating lease transactions. Particularly, rental services in the amount of EUR 602 thousand (2008: EUR 555 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. The respective office premises are in a construction process with expected completion at the end of 2010.

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 EUR 200 thousand.

There were no sales to related parties in any of the years presented. There were no receivables from or loans or guarantees issued to related parties at any statement of financial position date presented.

## 26 Commitments and contingencies

### 26.1 Operating lease commitments – Group as lessee

The Group leases various offices and warehouses under cancellable operating lease agreements. Should the Group decide to terminate these agreements, it is required to give one month notice. There are no further penalty payments required.

### 26.2 Guarantees

AS DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantees in the amount of USD 3 million. The maturity of the guarantees is within 1 year.

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

## 27 Events after the reporting period

There are no subsequent events except for the ones mentioned in the financial statement since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 31 December 2009.

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Elko Grupa

### Report on the Financial Statements

We have audited the accompanying 2009 consolidated financial statements of AS Elko Grupa, and its subsidiaries (the "Group"), which are set out on pages 4 through 38 and which comprise the consolidated balance sheet as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 5.1 to the consolidated financial statements which indicate legislative risk of the Group in relation to its export of products into Russia and Ukraine. The going concern of the Group and its financial position and financial performance may significantly be affected by future changes in interpretation and enforcement of tax legislation by the Russian or Ukrainian tax authorities

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Diāna Krišjāne  
Chairperson of the Board



Ivars Ragainis  
Latvian Certified Auditor  
Certificate No. 159

Rīga, 26 March 2010