Grow to succeed. ELKO Group.

Joint Stock Company ELKO Grupa

Unified registration number: 40003129564

Annual Report 2009

The annual report was reviewed and approved
by the general meeting of shareholders
on 31 March 2010

General information

Name of the company	ELKO Grupa
Legal status of the company	Joint stock company
Registration number, place and date of registration	000 312 956 Riga, 14 May 1993 Re-registered with the Commercial Register on 2 December 2003 under unified registration number 4 000 312 956 4
Registered office	Rūpniecības iela 27 Riga LV-1045 Latvia
Shareholders	AS IT Investīcijas (35.25 %), Latvia Amber Trust II S.C.A. (17.67%), Luxemburg East Capital Asset Management AB, represented by - East Capital Bering Russia fund (3.50 %), Cayman Islands - Concentra Ltd on behalf East Capital Bering Ukraine fund (3.50 %), Cayman Islands - Dalepole Ltd on behalf of East Capital Bering New Europe fund (1.84 %), Cayman Islands Eurotrail Limited (9.78%), Great Britain Whitebarn Limited (9.78%), Great Britain SIA KRM Serviss (9.57%), Latvia SIA Solo Investīcijas IT (9.11%), Latvia * In March 2010, AS IT Investīcijas sold its shares to the following entities: Ashington Business Inc. Ltd (1,214,299 shares, constituting 17.65% of the total share capital) and Solsbury Inventions Ltd. (1,209,967 shares, constituting 17.60% of the total share capital).
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 Jānis Casno – Board Member with representation powers jointly with another Board Member, Chief Executive Director 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
Reporting year	1 January – 31 December 2009
Name and address of the auditor and certified auditor in charge	SIA Ernst & Young Baltic Licence No. 17 Muitas iela 1 Riga, LV-1010 Latvia Certified auditor in charge: Ivars Ragainis Latvian Certified Auditor Certificate No. 159

Management report

Business activities

AS ELKO Grupa (hereinafter – the Company) is one of the largest distributors of IT products in the Baltic states, Central and Eastern Europe. The Company's core business activity is wholesale of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, servers, network components and networking solutions. Product distribution is organised via the network of the ELKO GRUPA subsidiaries as wholesalers as well as cooperation partners. The Company represents a broad range of world-renowned IT vendors, including Acer, Asus, Intel, Samsung, Seagate, Sony, Western Digital, etc.

The key to the success of AS ELKO Grupa as the parent company is the long-term strategy for cooperation with vendors developed over the years, centralised purchase system, functionality of business process management and financial management.

Financial analysis

AS ELKO Grupa sales reached LVL 229 million in 2009, falling by 50% from 2008. The Company closed the reporting year with a loss of LVL 579,486, which was mainly due to the provisions for receivables established in the amount of LVL 682 thousand.

Gross profit AS ELKO Grupa for the year 2009 was LVL 6,394,057 (2008: LVL 12,445,303), and its profitability in 2009 reached 2.8% (2008: 2.7%).

The drop in the sales and gross profit was mainly related to the adverse market situation and global financial crisis which had an explicit negative impact on the Company's operations in the first half of 2009. However, in the second half of 2009, some positive tendencies could be observed in the market, which was also reflected in the Company's sales and profit. The Company's management adequately responded to the adverse economic situation and considerably reduced the distribution and administrative expense.

In 2009, the Company critically assessed the value of its assets and established provisions for receivables of LVL 682 thousand.

Significant events during the year

In 2008, the Company became an official distributor and/ or established close cooperation with several well-known companies representing the IT industry, such as Cpmpucase, In WIN, NVIDIA, MSI, etc.

In August 2009, the Company announced the discontinuation of its operations in Croatia. Given the adverse economic situation and unacceptable cash cycle, as well as the low profitability in the Croatian market, the Company's management considered all the options and resolved to discontinue the operations in the respective market and transfer the resources to other markets. The discontinuation of operations in the Croatian market will have no impact on the Company's operations in general.

Future prospects

The AS ELKO Grupa performance is and will be influenced by the macroeconomic, political, and general competition situation and by the development of the markets where the Company is operating. The key factor driving the Company's growth was the increasing demand in the regions where the Company was operating, which was mainly due to the steep growth of the respective regions and comparatively low use of computers. Other factors included inflow of the EU structural funds and increase in local productivity of the Baltic and Eastern European companies, as well as reforms in the government sector in the CIS region.

Currently, certain stabilisation and even a slight increase of demand in the operational markets can be observed. Therefore, the Company is cautiously optimistic regarding the sales volumes in 2010.

To overcome the consequences of the current economic recession, the Company introduced a strict cost saving regime to match its expenses to the sales volumes. One of the cost cutting tools is the adoption of the Company's policy on payroll reduction by 15% as of 1 April 2009, as well as the reduction of the number of the employees by 10%. The Company focuses on improving its processes and efficiency. Considering the Company's ability to adapt to the current market situation, as well as its ability to complete the commenced processes aimed at enhancing its effectiveness, the Company is planning an increase in both sales and gross profit without considerably increasing the administrative and distribution expense.

Management report (cont'd)

Given existing credit risk and IT industry risk, one of the key priorities of the Company is the working capital management. The Company has reviewed its credit policy and customer payment terms, and required additional customer guarantees as a security for the granted credit lines. The Company's management is expecting that it will be able to recover part of the bad receivables as soon as the liquidity ratios of the respective entities improve. The Company's management also strongly believes that no significant loss events related to the customer insolvency are expected.

Although the financial result for the year 2009 is negative, the developments during the second half of 2009 provide a positive future outlook. The Company managed to leverage the cost structure in a rather short period of time and to considerably modify such business processes as procurement, credit policy, logistics, etc., which was reflected in the results of the second half of 2009 and would provide a positive impact on the 2010 results. Given the Company's stable financial situation, its management believes that a sound basis for successful operations in the future has been established.

AS ELKO Grupa structure

AS Elko Grupa have the following subsidiaries: SIA ELKO Latvija, ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G., Elko Marketing Ltd., and Statex Consulting Ltd. In 2007, the subsidiary Elko Marketing Ltd acquired 100% of shares in the subsidiary Alma Ltd. AS Elko Grupa holds controlling interest in all its subsidiaries.

Financial risk management

Multi-currency risk

AS ELKO Grupa operates internationally and is exposed to foreign exchange risk arising from primarily with respect to the US dollar and the euro. Foreign exchange risk arises from multi-currency futures through recognition of assets and liabilities and accounting for long-term investments.

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

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

The company's income is derived mainly in us dollars, so minimising the risk associated with fluctuations of currency rates. The financing attracted by the company is in us dollars.

Interest rate risk

As Elko Grupa has a current borrowing for financing part of its current assets. All the borrowings are at a floating rate, which exposes the company to interest rate risk.

Credit risk

AS Elko Grupa manages credit risk by applying the established procedures and control mechanisms. Credit risk is partly minimised through credit insurance granted to debtors since August 2006, as well as through pursuing conservative credit monitoring policies. In addition, the Company pursues. 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.

Inventories

AS ELKO Grupa determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/ or rapid obsolescence of the products or technological changes will result in excess stock and/ or the necessity to establish provisions for obsolete items. The Company makes centralised plans for purchase and sale of the products and the procedures for merchandise ordering help decrease the inventory days. Weekly inventory analysis eliminates the need to establish provisions for obsolete items.

The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide for compensation for the price reduction for the goods which are held at the Company's warehouse or have been ordered upon the price change.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows, managing the working capital turnover more efficiently.

Management report (cont'd)

Events after balance sheet date

As of the last date of the reporting year there have been no events which would have a material effect on the financial position of the Company as at 31 December 2009.

Profit distribution suggested by the Board

The Company's loss for the year 2009 of LVL 578,486 was mainly affected by the established provisions for receivables. The Company's Board believes that taking into consideration the fact that in 2009 the Company generated operating profit, the Company will be able to cover the loss for the year 2009 from the future profits.

Egons Mednis

Chairman of the Board,
President

Riga, 26 March 2010

The annual report was approved by the general meeting of shareholders on 31. March 2009.

Chairman of the general meeting of shareholders ____________
Andris Putāns

Income statement

	Notes	2009 LVL	2008 LVL
Net turnover	1	229,453,656	460,359,515
Cost of sales	2	(223,059,599)	(447,914,212)
Gross profit		**6,394,057**	**12,445,303**
Distribution costs	3	(1,072,762)	(1,872,141)
Administrative expense	4	(5,453,632)	(5,945,441)
Other operating income	5	3,194,756	2,233,678
Other operating expense	6	(266,733)	(2,106,187)
Income from investments in subsidiaries	7	42,585	7,895,721
Income from securities and loans forming non-current assets	8	733,500	-
Other interest receivable and similar income	9	267,702	306,333
Loss on non-current financial assets	10	(298,837)	(1,276,546)
Interest payable and similar expense	11	(4,052,678)	(3,885,951)
Profit before tax		**(512,042)**	**7,794,769**
Corporate income tax	12	(66,444)	(236,474)
Deferred tax	12,24	-	10,582
Net (loss)/profit for the year		**(578,486)**	**7,568,877**

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

26 March 2010

Balance sheet

(1)

	Notes	31/12/2009 LVL	31/12/2008 LVL
ASSETS			
Non-current assets			
Intangible assets:			
Concessions, patents, licences and similar rights	13	40,760	49,906
Total intangible assets:		40,760	49,906
Property, plant and equipment:			
Equipment and machinery		90,503	160,073
Communications and IT equipment		93,356	175,776
Other fixtures and fittings, tools and equipment		44,367	68,828
Prepayments for property, plant and equipment		7,510	-
Total property, plant and equipment:	14	235,736	404,677
Non-current financial assets:			
Investments in related companies	15	311,333	311,333
Non-current loans to related companies	30	12,225,000	-
Total non-current financial assets:		12,536,333	311,333
Total non-current assets:		**12,812,829**	**765,916**
Current assets			
Inventories:			
Raw materials		-	698
Finished goods and goods for resale		11,776,539	10,744,033
Prepayments for goods		5,327	85,795
Total inventories:		11,781,866	10,830,526
Receivables:			
Trade receivables	16	3,682,799	6,869,884
Receivables from related companies	30	37,281,896	100,492,987
Other receivables	17	1,166,907	1,189,723
Prepaid expense	18	177,198	448,500
Accrued income		6,087	-
Total receivables:		42,314,887	109,001,094
Current financial assets:			
Other current loans	30	-	310,837
Total current financial assets:		-	310,837
Cash:	19	724,036	998,950
Total current assets:		**54,820,789**	**121,141,407**
TOTAL ASSETS		**67,633,618**	**121,907,323**

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

Balance sheet

(2)

	Notes	31/12/2009	31/12/2008
EQUITY AND LIABILITIES		LVL	LVL
Equity:			
Share capital	20	6,876,790	6,876,790
Share premium		3,495,710	3,495,710
Retained earnings/ (accumulated deficit)			
a) brought forward		11,996,442	4,427,565
b) for the period		(578,486)	7,568,877
Total equity:		**21,790,456**	**22,368,942**
Liabilities:			
Non-current liabilities:			
Other loans	22	46,711	109,017
Total non-current liabilities:		46,711	109,017
Current liabilities:			
Loans from credit institutions	21	18,627,119	58,234,100
Other loans	22	3,962,996	4,667,276
Prepayments from customers		155,646	12,874
Trade payables		20,114,370	29,435,066
Payables to related companies	30	2,148,211	2,886,542
Taxes payable	25	104,575	100,187
Other liabilities	23	143,844	88,475
Accrued liabilities	26	539,690	684,128
Undrawn dividends of previous years		-	3,320,716
Total current liabilities:		45,796,451	99,429,364
Total liabilities :		**45,843,162**	**99,538,381**
TOTAL EQUITY AND LIABILITIES		**67,633,618**	**121,907,323**

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

Egons Mednis

Chairman of the Board,
President

Statement of changes in equity

	Share capital	Share premium	Retained earnings	Total
	LVL	LVL	LVL	LVL
Balance as at 31 December 2007	**6,876,790**	**3,495,710**	**7,427,055**	**17,799,555**
Dividends paid	-	-	(3,000,000)	(3,000,000)
Prior year adjustments	-	-	510	510
Profit for the reporting year	-	-	7,568,877	7,568,877
Balance as at 31 December 2008	**6,876,790**	**3,495,710**	**11,996,442**	**22,368,942**
Balance as at 1 January 2009	**6,876,790**	**3,495,710**	**11,996,442**	**22,368,942**
Loss for the reporting year	-	-	(578,486)	(578,486)
Balance as at 31 December 2009	**6,876,790**	**3,495,710**	**11,417,956**	**21,790,456**

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

Cash flow statement

	Notes	2009 LVL	2008 LVL
Cash flows to/ from operating activities			
(Loss)/profit before tax		**(512,042)**	**7,794,769**
Adjustments for:			
Amortisation and depreciation	13, 14	236,438	189,105
Change in provisions		937,260	1,287,019
(Gain) or loss from fluctuations of currency exchange rates		1,099,214	3,087,129
Income from dividends	7	(42,585)	(7,895,721)
Interest income	8,9	(1,001,202)	(306,333)
Interest expense	11	1,709,544	3,013,744
(Gain) on disposal of property, plant and equipment		(3,821)	(10,114)
		2,422,806	7,159,598
Working capital adjustments			
Decrease in trade receivables		67,671,993	6,389,243
(Increase)/decrease in inventories		(951,340)	9,937,919
(Decrease) in trade payables and other liabilities		(9,801,244)	(36,227,334)
Cash generated from operations, gross		**59,342,215**	**(12,740,574)**
Interest received		205,589	235,285
Interest paid		(32,590)	-
Corporate income tax paid		(296,875)	(752,961)
Net cash flows to/ from operating activities		**59,218,339**	**(13,258,250)**
Cash flows to/ from investing activities			
Acquisition of shares in related companies		-	(515,331)
Purchase of intangible assets and property, plant and equipment		(59,224)	(216,074)
Proceeds from sale of intangible assets and property, plant and equipment		4,694	20,384
Loans issued		(12,000,000)	(710,000)
Interest received		62,113	71,048
Dividends received		122,970	231,336
Net cash flows to/ from investing activities		**(11,869,447)**	**(1,118,637)**
Cash flows to/ from financing activities			
Loans (repaid)/received, net		(41,920,335)	21,166,431
Payment of finance lease liabilities		(79,781)	(86,731)
Interest paid		(1,635,310)	(3,013,744)
Purchase of securities		(667,664)	-
Dividends paid		(3,320,716)	(3,132,957)
Net cash flows to/ from financing activities		**(47,623,806)**	**14,932,999**
Change in cash and cash equivalents, net		**(274,914)**	**556,112**
Cash and cash equivalents at the beginning of the year		998,950	442,838
Cash and cash equivalents at the end of the year		**724,036**	**998,950**

The accompanying notes on pages 12 to 31 form an integral part of these financial statements.

Notes to the financial statements

Accounting policies

Corporate information

The joint stock company ELKO Grupa, having its registered office at Rūpniecības iela 27, Riga, and unified registration number 40003129564, was established on 14 May 1993. The Company's shareholders at the date of approval of the financial statements are as follows: SIA Solo Investīcijas IT (9.10%) and SIA KRM Serviss (9.57%) (both incorporated in Latvia), Eurotrail Limited (9.78%), Whitebarn Limited (9.78%), Ashington Business Inc.Limited (17.66%), and Solsbury Inventions Limited (17.60%) (all incorporated in Great Britain), as well as the investment management companies East Capital Bering Russia fund (3.50%), Concentra Ltd on behalf East Capital Bering Ukraine fund (3.50%), and Dalepole Ltd on behalf of East Capital Bering New Europe fund (1.84%) (all incorporated in Cayman Islands), and the investment management company Amber Trust II (17.67%) (incorporated in Luxemburg).

AS ELKO GRUPA Board consists of four Board Members headed by the Chairman of the Board Egons Mednis. The Council consists of four members, and the Chairman of the Council is Andris Putāns. The auditors of the Company are SIA Ernst & Young Baltic, a commercial company of certified auditors, and the certified auditor in charge is Ivars Ragainis (Certificate No. 159).

The financial statements of the Company for the year ended 31 December 2009 were approved by a resolution of the Company's Board on 31. March 2010.

The Company's shareholders have the power to amend the financial statements after issue.

Basis of preparation

The financial statements have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year. The following Latvian Accounting Standards (LAS) were applied in the preparation of these financial statements):

LAS 1 Presentation of Financial statements;

LAS 2 Cash Flow Statements;

LAS 3 Events Occurring After the Balance Sheet Date;

LAS 4 Changes in Accounting Policies, Changes in Accounting Estimates and Prior Period Errors;

LAS 5 Long-term Contracts;

LAS 6 Revenue;

LAS 7 Property, Plant and Equipment;

LAS 8 Provisions, Contingent Liabilities and Contingent Assets;

LAS 9 Investment Property;

LAS 10 Lease.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2009 through 31 December 2009.

These are stand-alone financial statements of the Company. The consolidated financial statements have been prepared separately.

The income statement has been prepared according to the function of expense method.

The cash flow statement has been prepared under the indirect method.

Changes in accounting policies

No significant changes were made in the Company's accounting policies.

Recognition of revenue and net turnover

Net turnover comprises the total value of goods sold and services provided during the year, less any discounts and value added tax. Revenue from sale of goods is recognised when the buyer has accepted the goods in accordance with the delivery terms. Revenue from provision of services is recognised in the period when the services are provided. Revenue from dividends is recognised when the shareholders' right to receive the payment is established.

Notes to the financial statements (cont'd)

Accounting policies (cont'd)

Foreign currency translation

The functional and presentation currency of the Company is Latvian lats (LVL). Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

	31/12/2009	**31/12/2008**
	LVL	**LVL**
1 EUR	0.702804	0.702804
1 USD	0.489	0.495
1 EEK	0.0449	0.0449
1 HRK	0.0961	0.0962
1 LTL	0.204	0.203
1 CHF	0.472	0.468
1 RON	0.167	0.178

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are stated at cost value less accumulated amortisation/ depreciation and any impairment in value. Cost value includes costs directly attributable to the acquisition of assets. The cost value of software licences includes the costs incurred to acquire and bring to use the specific software.

Amortisation/ depreciation is calculated on a straight-line basis over the estimated useful life of the asset to write the cost value of the relevant asset down to the residual value at the end of the useful life, applying the following rates as established by the management:

	% per annum
Licences	25
Transport vehicles	25
Communications equipment	50
Computers and other EDP equipment	50
Other fixtures and fittings	20

Where the carrying value of any asset exceeds its recoverable amount, the asset is immediately written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset.

Expenses such as repair and maintenance costs are normally charged to the income statement in the period when incurred.

The gain or loss arising from the derecognition of the asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is included in profit or loss when the item is derecognised.

Notes to the financial statements (cont'd)

Accounting policies (cont'd)

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less any impairment loss. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

If there objective evidence that the carrying value of investments in subsidiaries might have decreased, impairment loss is determined as the amount by which the carrying amount of the investment exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment loss recognised in prior periods can be reversed if there has been a change in the estimates used to determine the impairment since the last impairment loss was recognised.

Other financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchasing the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit and loss

Financial assets classified as held-for-trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held-for-trading unless they are designed as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Other non-current investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any differences between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Where net realisable value of inventories is lower than cost, provisions are established for write-down of inventories to net realisable value.

Notes to the financial statements (cont'd)

Accounting policies (cont'd)

Receivables

Receivables are stated in the balance sheet at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying value and the recoverable amortised of a receivable.

An estimate of provisions for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible. Provisions for receivables 90-180 days past due are made in the amount of 50% of the debt, and provisions for receivables more than 180 days past due are made in the amount of 100% of the debt. Starting from 2006, AS ELKO Grupa has had an agreement concluded with the receivable insurance company EULER HERMES KREDITVERSICHERUNGS AG. Initially the agreement provided for a 10% deductible. As of 1 August 2009, a new insurance policy has been effective providing for a 20% deductible for receivables becoming overdue during the term of the new policy. The deductible for the doubtful receivables is recognised in the income statement of AS ELKO Grupa as provisions for doubtful receivables on the 60^{th} day after the debt falls due and charged to loss on the 180^{th} day after the payment date unless the debt has been recovered.

Finance lease – the Company as lessee

Leases of assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating lease – the Company as lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments and prepayments (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Derivative financial instruments

Derivative financial instruments initially are recognised at fair value on the date a derivative contract is entered into and subsequently are revaluated at fair value. The fair value of derivative financial instruments that are traded in an active market is determined by reference to quoted market bid prices on the balance sheet date. For derivative financial instruments where there is no active market, fair value is determined using discounted cash flow models. All derivative financial instruments are stated as assets where their fair value is positive or as liabilities where their fair value is negative.

Gains or losses from changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Notes to the financial statements (cont'd)

Accounting policies (cont'd)

Taxes

Corporate income tax charge is disclosed in the financial statements based on the calculations performed by the management in accordance with the Republic of Latvia tax legislation.

Deferred corporate income tax arising from temporary differences between the tax base of assets or liabilities and their carrying amount in these financial statements is calculated using the liability method. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the deferred income tax asset is realised or the deferred income tax liability is settled. The principal temporary timing differences arise from differing rates for depreciation on the Company's property, plant and equipment and accrued liabilities. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Vacation pay reserve

The vacation pay reserve is estimated by multiplying the average daily remuneration expense on the last day of the reporting year by the total number of vacation days earned but not taken as at the year end.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank.

Related parties

Related parties are defined as shareholders of the Company, Members of the Board and the Council, their close members of the families, and entities over which these persons exercise significant influence or control.

Notes to the financial statements (cont'd)

1. Net turnover

	2009 LVL	2008 LVL
Wholesale of computer components	251,036,858	494,824,035
Wholesale of computer components (Latvia)	9,689,741	18,968,853
Discounts granted	(31,541,250)	(53,746,265)
Other income from sales	268,307	312,892
	229,453,656	460,359,515

2. Cost of sales

Cost of goods sold (at cost)	256,737,955	502,879,066
Costs of delivery of purchased goods	627,261	2,413,270
Taxes and duties paid upon purchase of goods	6,641	63,991
Discounts received	(34,312,258)	(57,442,115)
	223,059,599	447,914,212

3. Distribution costs

Delivery costs of goods sold	453,114	377,623
Distribution of goods	293,611	384,771
Warehouse costs	235,374	520,075
Loss from replacement of goods under warranty	88,896	340,098
Advertising	58,645	71,439
(Release of provisions)/ Provisions for RMA liabilities	(61,360)	74,709
Other distribution costs	4,482	103,426
	1,072,762	1,872,141

4. Administrative expense

Wages and salaries	2,617,649	2,863,147
Write-off of doubtful and bad debts	681,827	25,423
Statutory social insurance contributions	609,182	628,359
Office maintenance	489,587	366,590
Depreciation and amortisation	236,438	189,105
Professional services *	228,135	980,451
Transport expense	114,981	101,765
Insurance of receivables	108,082	91,927
Communications expense	75,573	64,546
Other administrative expense	292,178	634,128
	5,453,632	5,945,441

* Including service fee and annual audit fee paid to the companies of certified auditors: in 2009 – LVL 54,116 (2008: LVL 115,962).

Notes to the financial statements (cont'd)

5. Other operating income

	2009 LVL	2008 LVL
Currency exchange gain	1,800,556	-
Income from services	1,353,063	2,211,749
Gain on disposal of property, plant and equipment	3,821	13,362
Other income	37,316	8,567
	3,194,756	2,233,678

6. Other operating expense

	2009 LVL	2008 LVL
Advertising contracts with subsidiaries	183,163	242,420
Penalties	32,590	278,314
Donations	21,500	22,146
Currency exchange loss	-	1,456,899
Other expense	29,480	106,408
	266,733	2,106,187

7. Income from investments in subsidiaries

	2009 LVL	2008 LVL
Dividends from ELKOTech Romania SA	42,585	231,336
Dividends from WesTech spol.s.r.o.	-	80,385
Dividends from ELKO Trading Switzerland AG	-	7,584,000
	42,585	7,895,721

8. Income from securities and loans forming non-current assets

	2009 LVL	2008 LVL
Interest income from loans issued to other Group companies	733,500	-
	733,500	-

9. Other interest receivable and similar income

	2009 LVL	2008 LVL
Late payment interest	190,879	198,692
Interest income from current loans issued to other Group companies	48,978	71,049
Interest income for short-term securities	13,135	-
Interest accrued on bank account balances	10,620	1,419
Contractual penalties received	4,090	35,173
	267,702	306,333

Notes to the financial statements (cont'd)

10. Loss on non-current financial assets

	2009 LVL	2008 LVL
Impairment allowance for the loan issued to subsidiary ELKOTECH d.o.o. (*)	298,837	679,163
Impairment allowance for the investment in subsidiary ELKOTECH d.o.o.	-	190,317
Impairment allowance for the investment in subsidiary ELKO Kaunas UAB	-	407,066
	298,837	1,276,546

* See Note No. 30.

11. Interest payable and similar expense

Interest payments on loans from credit institutions	1,215,183	2,543,700
Currency exchange loss, net	2,375,724	872,207
Interest expense (debt securities)	456,823	457,051
Interest expense (finance lease)	4,948	12,993
	4,052,678	3,885,951

12. Current corporate income tax charge and deferred tax

Deferred tax (see Note 24)	-	(10,582)
Prior year corporate income tax adjustment	5,239	-
Current corporate income tax charge for the reporting year	61,205	236,474
	66,444	225,892

Current corporate income tax charge differs from the theoretical amount that would arise if the statutory tax rate of 15% was applied to the Company's profit before tax:

(Loss)/profit before tax	(512,042)	7,794,769
Tax at the applicable tax rate of 15%	(76,806)	1,169,215
Non-deductible expenses	246,975	83,011
Non-taxable income	(26,378)	(1,184,358)
Tax rebate on donations	(15,301)	(18,824)
Valuation allowance for unrecognised deferred tax asset	(67,285)	176,848
Tax charge	61,205	225,892

The currently effective tax rate of 15% was used for deferred tax calculation.

Notes to the financial statements (cont'd)

13. Intangible assets

	Concessions, patents, licences, and similar rights
Cost	
As at 1 January 2008	201,789
Additions	17,827
As at 31 December 2008	219,616
Depreciation	
As at 1 January 2008	159,215
Amortisation charge	10,495
As at 31 December 2008	169,710
Net carrying amount as at 31/12/2008	49,906
Cost	
As at 1 January 2009	219,616
Additions	5,417
As at 31 December 2009	225,033
Depreciation	
As at 1 January 2009	169,710
Amortisation charge	14,563
As at 31 December 2009	184,273
Net carrying amount as at 31/12/2009	40,760
Net carrying amount as at 31/12/2008	49,906

Notes to the financial statements (cont'd)

14. Property, plant and equipment

	Equipment and machinery	Other assets	Communications and IT equipment	Prepayments	Total
	LVL	LVL	LVL	LVL	LVL
Cost					
As at 1 January 2008	335,451	101,811	291,362	15,903	744,527
Additions	48,541	62,685	154,078	-	265,304
Sales	(33,911)	(3,800)	(1,651)	-	(39,362)
Disposals	(8,165)	-	(629)	-	(8,794)
Reclassification	-		15,903	(15,903)	-
As at 31 December 2008	341,916	160,696	459,063	-	961,675
Depreciation					
As at 1 January 2008	138,594	75,560	202,120	-	416,274
Depreciation charge	75,619	19,614	83,377	-	178,610
Sales	(23,994)	(3,800)	(1,298)	-	(29,092)
Disposals	(8,165)	-	(629)	-	(8,794)
Reclassification	(211)	494	(283)		-
As at 31 December 2008	181,843	91,868	283,287	-	556,998
Net carrying amount as at 31/12/2008	160,073	68,828	175,776	-	404,677
As at 1 January 2009	341,916	160,696	459,063	-	961,675
Additions	-	1,973	44,325	7,510	53,808
Sales	(11,105)	-	(1,398)	-	(12,503)
Disposals	-	(1,230)	(4,159)	-	(5,389)
Write-offs	-	-	(439)	-	(439)
As at 31 December 2009	330,811	161,439	497,392	7,510	997,152
Depreciation					
As at 1 January 2009	181,843	91,868	283,287	-	556,998
Depreciation charge	69,570	26,434	125,872	-	221,876
Sales	(11,105)	-	(653)	-	(11,758)
Disposals	-	(1,230)	(4,159)	-	(5,389)
Write-offs	-	-	(311)	-	(311)
As at 31 December 2009	240,308	117,072	404,036	-	761,416
Net carrying amount as at 31/12/2009	90,503	44,367	93,356	7,510	235,736
Net carrying amount as at 31/12/2008	160,073	68,828	175,776	-	404,677

During the reporting year, no assets were acquired on finance lease terms (2008: equipment totalling LVL 67,057). As at 31 December 2009, the net carrying amount of the assets so acquired was as follows: equipment – LVL 45,966 (2008: LVL 61,784), cars - LVL 54,906 (2008: LVL 113,622). The ownership rights to these assets (equipment and cars) will be transferred to the Company only after settling all lease liabilities (see also Note 22).

Notes to the financial statements (cont'd)

15. Investments in related companies

Analysis of change in non-current financial assets

	Investments in related companies LVL
As at 31 December 2008	908,716
Acquisition	-
As at 31 December 2009	908,716
Change in investment value as at 31/12/2008	597,383
Impairment allowance	-
As at 31 December 2009	597,383
Net carrying amount as at 31/12/2009	311,333
Net carrying amount as at 31/12/2008	311,333

The investments in the subsidiaries ELKOTECH d.o.o and ELKO Kaunas UAB have been provided for, so minimising the potential risk of investment impairment.

Information about subsidiaries

Name	Address	Equity 31/12/2009 LVL	Equity 31/12/2008 LVL	Profit / (loss) for the year 2009 LVL	Profit / (loss) for the year 2008 LVL
Statex Consulting Ltd	Nafpliou, 15 2nd floor, P.C. 3025, Limassol, Cyprus	17,509,681	16,496,117	(92,001)	(843,406)
WesTech s.r.o	Slovakia, Bratislava, Stara Vajnorska 17	859,855	1,119,741	(250,968)	66,358
ELKO Trading Switzerland AG	Switzerland, 6304 Zug, Baarerstrasse 43	(8,871,355)	5,772,108	(12,566,552)	6,519,584
ELKOTEX d.o.o.	Slovenia, Ljubljana, Strenge-25	427,537	414,997	15,769	14,497
ELKOTech Romania SA	Romania, Bucharest, Siret 95, Sector 1	317,982	239,226	134,954	(109,566)
ELKO Marketing Ltd	Nafpliou 15, 1st floor, Flat/Office 102, P.C. 3025, Limassol, Cyprus	5,914	3,384	2,531	12,929
ELKO Kaunas UAB	Lithuania, Kaunas, Ateities pl 77c	144,853	136,600	9,005	(115,923)
ELKO Latvija SIA	Latvia, Riga, Rūpniecības- 27	44,622	48,206	(3,584)	(2,866)
ELKO Eesti AS	Estonia, Tallinn, Turi 10-C	2,089	2,096	10	-
ELKOTECH d.o.o.	Croatia, Zagreb, Tomislavova 11	(793,370)	(256,255)	(536,977)	(320,134)
		9,647,808	23,976,220	(13,287,813)	5,195,615

Equity of the subsidiaries is translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. Profit/loss of the subsidiaries is reported in Lats applying the average rate for the respective year established by the Bank of Latvia.
The profit of the subsidiaries is included in the proportion of the investment of AS ELKO Grupa.

Notes to the financial statements (cont'd)

15. Investments in related companies (cont'd)

Information about participating interest in subsidiaries

	Participating interest in subsidiaries at carrying value		Participating interest in equity of subsidiaries	
Name	**31/12/2009**	**31/12/2008**	**31/12/2009**	**31/12/2008**
	LVL	**LVL**	**%**	**%**
ELKO Trading Switzerland AG	42,700	42,700	100	100
ELKO Latvija SIA	2,000	2,000	100	100
ELKO Marketing Ltd	1,120	1,120	100	100
Statex Consulting Ltd	592	592	100	100
ELKO Eesti AS	70,396	70,396	100	100
ELKO Kaunas UAB	520,387	520,387	100	100
Impairment allowance for the investment in ELKO KAUNAS UAB	(407,066)	(407,066)		
ELKOTECH d.o.o	190,317	190,317	70	70
Impairment allowance for the investment in ELKOTECH d.o.o.	(190,317)	(190,317)		
ELKOTEX d.o.o.	56,880	56,880	51	51
ELKOTech Romania SA	17,745	17,745	51	51
WesTech s.r.o	6,579	6,579	51	51
	311,333	311,333		

The core business activity of the subsidiaries of AS ELKO Grupa is wholesale of computer parts and components.

As at 31 December 2008, following the prudence principle, impairment allowances for the investments in the subsidiaries ELKOTECH d.o.o. and ELKO KAUNAS UAB had been established.

The decision regarding the impairment allowance for the investment in the subsidiary ELKOTECH d.o.o. was based on the fact that the subsidiary had closed the year 2008 with a loss and the resulting negative equity. In 2008, the investment was fully provided for.

The decision regarding the impairment allowance for the investment in the subsidiary ELKO KAUNAS UAB was based on the fact that the subsidiary had closed the year 2008 with a loss and the resulting negative equity.

16. Trade receivables

	31/12/2009	**31/12/2008**
	LVL	**LVL**
Trade receivables	4,237,952	6,925,466
Provisions for bad and doubtful trade receivables *	(555,153)	(55,582)
	3,682,799	6,869,884

In 2009, provisions for doubtful receivables have been established in the amount of LVL 555,153 (2008: LVL 55,582), including the provisions for insured receivables of LVL 318,284 (2008: LVL 0).

Notes to the financial statements (cont'd)

17. Other receivables

	31/12/2009 LVL	31/12/2008 LVL
Overpayment of VAT in the Netherlands (see Note 25)	463,640	356,932
Prepayments*	391,236	404,568
Overpayment of corporate income tax (see Note 25)	238,095	331,628
Overpayment of personal income tax (see Note 25)	454	454
Other receivables	73,482	96,141
	1,166,907	1,189,723

* AS ELKO Grupa has a cooperation agreement signed with SIA AST BALTS on the lease of premises in Riga, Toma iela. Starting from August 2008, the Company has been selling its goods from the new warehouse. As at 31 December 2009, AS ELKO Grupa had made a prepayment to SIA AST BALTS in the amount of LVL 390,393. The lease payments will be reduced by the prepayment amount in 2010.

18. Prepaid expense

Prepaid interest on debt securities	25,752	53,846
Insurance	127,162	202,364
Various subscription fees	13,902	15,899
Other expense	10,382	176,391
	177,198	448,500

19. Cash

Cash at bank	718,798	996,711
Cash on hand	5,238	2,239
	724,036	998,950

20. Share capital

As at 31 December 2009, the Company's registered and fully paid-in share capital consisted of 6,876,790 ordinary shares with the par value of LVL 1 each. The Company carried out a closed issue of ordinary registered shares. All the shares belong to the same category – ordinary voting shares.

Notes to the financial statements (cont'd)

21. Loans from credit institutions

	31/12/2009 LVL	31/12/2008 LVL
Credit line from AS DnB Nord banka	18,621,830	56,004,093
Loan from AS GE Money Bank	-	2,227,500
Credit card balance	5,289	2,507
	18,627,119	58,234,100

In July 2006, AS ELKO Grupa signed a credit line agreement with AS DnB NORD Banka for the maximum amount of USD 60,000,000. On 20 October 2009, the credit line agreement was amended, reducing the credit limit to USD 50,000,000, including the following:
- The fixed portion of the credit line was granted in the amount of USD 15,000,000. The annual interest rate comprises the base rate of 3-month LIBOR (USD) and the margin of 3%;
- The variable portion of the credit line was reduced to USD 30,500,000. The annual interest rate comprises the base rate of 3-month LIBOR (USD) and the margin of 3%;
- The limit for guarantees and letters of credit was reduced to USD 4,500,000.

The credit line is repayable on 28 September 2010. Interest on the credit line is payable monthly. As a security for the loan, the Company has pledged all its tangible assets (except for motor vehicles), claims, inventories, investments in subsidiaries and any future constituents of the said aggregation of property. As at 31 December 2009, the carrying value of the pledged items was LVL 67,532,746 (31 December 2008: LVL 121,730,768).
According to the signed loan agreements, the Company is obliged to maintain certain liquidity ratios at the level stated by the lenders. In the reporting year, the Company failed to comply with the terms regarding certain profitability ratios. In 2010, AS DNB Nord Banka confirmed that it would not demand immediate repayment of the outstanding loan amount due to the said default.
In September 2008, AS ELKO GRUPA signed a loan agreement with AS GE MoneyBank. The loan amounted to USD 4,500,000 and matured on 30 March 2009. The loan was fully repaid.

22. Other loans

Non-current portion		
Portion of finance leases maturing between 2 and 5 years	46,711	109,017
	46,711	109,017
Current portion		
Debt securities (bonds)	3,900,562	4,568,226
Funds from the Marketing Fund	128	19,269
Portion of finance leases maturing within one year	62,306	79,781
	3,962,996	4,667,276

The Company has issued debt securities (bonds) with a total par value of EUR 6,500,000. In 2009, the company exercised its contractual rights and repurchased the bonds amounting to EUR 950.000 (2008: EUR 0.00). In the financial statements for the year ended 31 December 2009 the bonds are reported at net value.

Notes to the financial statements (cont'd)

22. Other loans (cont'd)

As it is disclosed in Note 14, the Company has acquired several assets under finance lease terms. The present value of finance lease liabilities may be disclosed as follows:

	31/12/2009 LVL	31/12/2008 LVL
Portion of finance leases maturing within one year	62,306	79,781
Portion of finance leases maturing between 2 and 5 years	46,711	109,017
	109,017	188,798
Finance lease liabilities – minimum lease payments:		
Portion of finance leases maturing within one year	64,399	84,807
Portion of finance leases maturing between 2 and 5 years	48,280	115,885
	112,679	200,692
Future finance charges	(3,662)	(11,894)
Net deferred tax liability	109,017	188,798

As at 31 December 2009, the effective interest rate applied to finance leases was 3.36 % (2008: 6.30 %).

23. Other liabilities

Bonuses for the reporting year	83,703	26,887
Other liabilities	60,141	61,588
	143,844	88,475

24. Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

Deferred tax assets:		
- Deferred income tax asset to be recovered after more than 12 months	-	(191,482)
- Deferred income tax asset to be recovered within 12 months	(123,476)	(18,924)
	(123,476)	(210,406)
Deferred tax liabilities:		
- Valuation allowance for unrecognised deferred tax asset	109,563	176,848
- Deferred tax liabilities to be recovered after more than 12 months	12,604	26,070
- Deferred tax liabilities to be recovered within 12 months	1,309	7,488
	123,476	210,406
Net deferred tax liability	-	-

Notes to the financial statements (cont'd)

24. Deferred tax (cont'd)

Changes in deferred tax can be specified as follows:

	2009 LVL	2008 LVL
Deferred tax liability/ asset at the beginning of the year	-	10,582
Deferred tax charged /(credited) to the income statement (see Note 12)	-	(10,582)
Deferred tax asset at the end of the year	-	-
Deferred tax liability at the end of the year	-	-

Deferred tax has been calculated on the following temporary differences between the carrying amounts of assets and liabilities and their tax base:

	31/12/2009 LVL	31/12/2008 LVL
Deferred tax liability:		
Temporary difference in depreciation	13,913	33,558
Deferred tax asset:		
Temporary difference in vacation pay reserve	(12,593)	(3,904)
Temporary difference in provisions for bad debts	(104,659)	(3,813)
Temporary difference in impairment of investments in subsidiaries	-	(191,482)
Temporary difference in provisions for RMA liabilities	(6,224)	(11,207)
Valuation allowance for deferred tax asset	(109,563)	(176,848)
Deferred tax liability	-	-

Notes to the financial statements (cont'd)

25. Taxes payable

	Corporate income tax	Withholding tax	VAT in Latvia	VAT in the Netherlands	Statutory social insurance contributions	Personal income tax (withholding tax)	Personal income tax	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Payable as at 31/12/2008	-	5,556	93,289	-	1,334	8	-	100,187
(Receivable) as at 31/12/2008	(331,628)	-	-	(356,932)	-	-	(454)	(689,014)
Calculated for 2009	61,205	83,249	600,239	(1,239,167)	846,382	3,215	492,834	847,957
Adjustments for 2007	(2,049)	-	-	-	-	-	-	(2,049)
Adjustments for 2008	7,288	-	-	-	-	-	-	7,288
Penalties for 2008	2,048	-	-	-	-	-	-	2,048
Refunded	-	-	-	1,132,459	(7,706)	-	-	1,124,753
Transferred to other taxes	255,472	-	(75,000)	-	(143,958)	-	(36,514)	-
Paid in 2009	(230,431)	(88,805)	(515,000)	-	(695,011)	(3,217)	(456,320)	(1,988,784)
Payable as at 31/12/2009	-	-	103,528	-	1,041	6	-	104,575
(Receivable) as at 31/12/2009	(238,095)	-	-	(463,640)	-	-	(454)	(702,189)

* Taxes receivable are disclosed in the balance sheet caption *Other receivables* (see Note 17).

26. Accrued liabilities

	31/12/2009	31/12/2008
	LVL	LVL
Accruals for marketing	129,233	174,778
Vacation pay reserve	83,953	122,814
Accrued interest on long-term debt securities	41,644	41,644
Provisions for RMA	41,500	102,860
Other accrued liabilities	243,360	242,032
	539,690	684,128

Notes to the financial statements (cont'd)

27. Average number of employees

	2009	2008
Average number of employees during the reporting year:	185	193

28. Remuneration to management

	2009	2008
	Ls	Ls
Board Members		
- salaries	142,921	133,745
- statutory social insurance contributions	34,430	32,219
	177,351	165,964

The Board and Council Members do not receive remuneration for their functions in the Board and the Council.

29. Guarantees issued

AS DnB NORD Banka has issued guarantees through DnB NOR Bank ASA for the total amount of USD 3 million. The guarantees have been issued for one year.

All the assets of AS ELKO Grupa have been pledged in favour of the creditors.

30. Related party disclosures

During the reporting year, AS ELKO Grupa sold to its subsidiaries computer components and provided services worth over LVL 189 million. The payments for those deliveries were made in 2009 in accordance with the terms under the relevant agreements.

The Company carried out the following transactions with related parties:

	Sales		Purchases	
Related party	**2009**	**2008**	**2009**	**2008**
	LVL	**LVL**	**LVL**	**LVL**
ELKO Trading Switzerland AG	155,062,559	386,575,544	-	1,143
ELKO Latvija SIA	744	763	-	-
ELKO Eesti AS	155	432	152,287	190,603
ELKO Kaunas UAB	-	2,268,511	189,337	950,756
ELKOTECH d.o.o	1,214,465	5,388,939	79,412	13,058
ELKOTEX d.o.o.	5,155,466	6,917,603	16,964	34,672
ELKOTech Romania SA	6,450,347	11,532,464	75,004	39,535
WesTech s.r.o	21,556,645	13,925,395	48,443	153,170
	189,440,381	426,609,651	561,447	1,382,937

Notes to the financial statements (cont'd)

30. Related party disclosures (cont'd)

Receivables and payables arising from related party transactions:

	Amounts due from related parties		Amounts due to related parties	
Related party	**31/12/2009**	**31/12/2008**	**31/12/2009**	**31/12/2008**
	LVL	**LVL**	**LVL**	**LVL**
ELKO Trading Switzerland AG	33,515,614	97,247,229	1,808,215	2,624,657
ELKO Latvija SIA	75	-	-	-
ELKO Eesti AS	88	-	24,522	16,640
ELKO Kaunas UAB	-	-	36,008	64,819
ELKOTECH d.o.o	231,961	1,868,603	231,871	26,560
ELKOTEX d.o.o.	231,306	-	13,362	113,304
ELKOTech Romania SA	1,155,419	1,360,203	23,665	30,510
WesTech s.r.o	2,147,433	16,952	10,568	10,052
	37,281,896	100,492,987	2,148,211	2,886,542

Guarantees and loans issued to related parties

Loan issued to ELKO Trading Switzerland	12,225,000	-
Loan issued to ELKOTECH d.o.o.	978,000	990,000
Impairment allowance for the loan issued to related party	(978,000)	(679,163)
	12,225,000	310,837

In 2009, the Company issued to its subsidiary ELKO Trading Switzerland Ltd a non-current loan of USD 25,000,000 maturing on 30 September 2011. In accordance with the agreement, annual interest is 6% and is payable on a quarterly basis. Interest of 733,500 was disclosed in the income statement under income from securities and loans forming non-current assets.

The company has issued to its subsidiary ELKOTECH d.o.o a current loan of USD 2,000,000 (2008: USD 2,000,000) maturing on 30 June 2009. In accordance with the agreement, annual interest is 10% and is payable on a quarterly basis. Interest of LVL 48,978 (2008: LVL 71,049) is disclosed in the income statement under other interest receivable and similar income.

In 2009, following the prudence principle, an impairment allowance in the amount of LVL 298,837 (2008: LVL 679,163) for the current loan issued to the subsidiary ELKOTECH d.o.o. was established as the subsidiary did not have sufficient resources to repay the loan in due time.

In 2009, the Company issued to its subsidiary ELKOTECH ROMANIA S.A. a guarantee for the amount of EUR 1,500,000 as a security for the loans granted by UniCredit Tiriac Bank S.A, a commercial bank registered in Romania.

Notes to the financial statements (cont'd)

31. Financial risk management

Multi-currency risk

AS ELKO Grupa operates internationally and is exposed to foreign exchange risk arising primarily from the US dollar and the euro. Foreign exchange risk arises from multi-currency futures through recognition of assets and liabilities and accounting for long-term investments.

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

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

The Company's income is derived mainly in US dollars, so minimising the risk associated with fluctuations of currency rates. The financing attracted by the Company is in US dollars.

Interest rate risk

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

Credit risk

Starting from August 2006, AS Elko Grupa has been using the credit insurance services offered by international insurance companies, so minimising the total risk exposure. In addition, the Company pursues conservative credit monitoring policies. 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.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities. In future the Company's management plans to increase the liquidity reserve based on the expected cash flows, managing the working capital turnover more efficiently.

32. Going concern

According to the loan and bond issue agreements, AS ELKO Grupa has to maintain certain liquidity ratios, as fixed by the lenders. During the reporting year, the Company failed to fully comply with the terms regarding certain profitability ratios. According to IFRS 7 (19) and following the prudence principle, if the Company fails to comply with the said covenants, it shall recognise the respective loans and bond related liabilities as current liabilities (see Note 21). In 2010, AS DNB Nord Banka confirmed that it would not demand immediate repayment of the outstanding loan amount due to the said default. Thereby, the financial statements for the year ended 31 December 2009 have been prepared on a going concern basis.

33. Events after balance sheet date

As of the last date of the reporting year there have been no events which would have a material effect on the financial position of the Company as at 31 December 2009.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Elko Grupa

Report on the Financial Statements

We have audited the accompanying 2009 financial statements of AS Elko Grupa (the "Company"), which are set out on pages 7 through 31 of the accompanying 2009 Annual Report and which comprise the balance sheet as at 31 December 2009, the statements of income, changes in equity and 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 Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the law of the Republic of Latvia On the Financial Statements of Companies. 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 give a true and fair view of the financial position of AS Elko Grupa as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the law of the Republic of Latvia On the Financial Statements of Companies.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (set out on pages 4 through 6 of the accompanying 2009 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

Ernst & Young Baltic SIA
License No. 17

Diāna Krišjāne
Chairperson of the Board

Ivars Ragainis
Latvian Certified Auditor
Certificate No. 159

Riga, 26 March 2010