



ELKO GRUPA AS

Unaudited Consolidated Interim Financial Statements
For 9 months ended 30 September 2010 (EUR)

Structure

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AS ELKO GRUPA MANAGEMENT REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2010

Business activities

AS ELKO Grupa (hereinafter – the Company) and its subsidiaries (hereinafter – the Group) is one of the largest distributors of IT products in the Baltic States, Central and Eastern Europe. The Group's core business activity is wholesale distribution of computer desktop components and peripherals, notebooks, monitors, multimedia and software products, server, network component and networking solutions, using the wide network of the the Group and cooperation partners, representing a broad range of vendors of these products all over the world, including Acer, Intel, Samsung, Sony and Western Digital and others.

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

Financial analysis

The Group's turnover in the 9 month period of 2010 has reached USD 504.7m that constitutes 17% increase from the corresponding period in 2009. Gross margin has increased by 41% and reached USD 18.6m. The increase in both turnover and gross margin results demonstrates healthy recovery in IT market.

During the market contraction phase in 2009 the Group implemented strict cost cutting policy where the most substantial savings were achieved on personnel costs, which decreased from USD 7.3m in the 9 month period of 2009 to USD 5.8m in the corresponding period in 2010. In the 9 month period of 2010 the other expenses decreased to USD 2.0m comparing to USD 28.3m in corresponding period in 2009, where difference is mainly related to provisions for bad debts in the amount of 28m USD, which the the Group made as a result of customer defaults on their payments.

The equity ratio of the the Group calculated as equity over assets is 25.1% and has experienced decrease from 41.2% on December 31, 2009. The decrease in equity ratio is primarily related to the seasonality of the business. At the same time the Group's financial leverage (the borrowings-to-equity ratio) has improved from 72.5% to 62.5% that is mainly due effective capital usage and corresponding decrease of financing facility.

The inventory and accounts payable balances comparing to 31 December 2009 have increased by 154% and 252% respectively. The increase in the corresponding balances reflects seasonality of the industry and is based on strong growth expectations in the last quarter of 2010.

Prospects

The Group's performance is and will be influenced by macroeconomic, competition and political situation and developments of markets where the Group has cooperation partners. The key factors driving the Group's growth was the increase in demand in the markets where the the Group operates. The demand was stimulated by the rapid economical development in operating markets as well as comparatively low use of computers. The other factors include inflow of the EU structural funds and increase in local productivity of the Baltic and Eastern European companies as well as reforms in the government sector in the CIS region.

There are positive signs that demand in the Group's markets have stabilized and indicate trend towards growth. That allows the Group to remain optimistic regarding the increased trade volumes in 2010.

During the market contraction phase in 2009 the Group implemented strict cost cutting policy as the result the Group managed to decrease its administrative and distribution costs. In next periods the Group plans to increase its turnover and profit margin by adapting to the current market conditions and completing all internal efficiency improvements in the meantime keeping administrative costs at the same level. The turnover is expected to grow faster than distribution costs.

Management report (cont'd)

Prospects (cont'd)

In the light of given credit and IT market risks the management has assigned priority towards working capital management. The Group has tightened its credit policies by reviewing customer payment terms and requiring additional securities from customers in order to back up the provided credit lines. It is expected that some part of the provided provisions are recoverable pending customers' ability to solve the liquidity issues. The management is strongly convinced that in nearest future existing clients will remain stable and does not expect considerable defaults.

2010 has started with goods results and the Group remains positive about future prospects due to the noted positive trend in the markets where the Group is operating. The Group has proved its flexibility towards changing environment by being able to balance expenses and significantly change internal business processes, like procurement, credit policies, logistics etc. in very short time period. This allowed the Group to achieve positive results in the second half of 2009 and is providing good basis for growth in 2010. The Group's management believes that current sound financial standing provides solid base for the future business growth.

Significant events during reporting period

In 2010 the Group has become the distributor of Microsoft products in Russia as well as extended its cooperation with Western Digital by become exclusive distributor of SSD disk drives in the markets where the Group operates.

ELKO Group structure

AS ELKO Grupa has shareholding in ten subsidiaries: SIA ELKO Latvija, ELKO Kaunas UAB, ELKOTECH d.o.o., ELKO Eesti AS, ELKOTech Romania SA, WESTech s.r.o., ELKOTEX d.o.o., ELKO Trading Switzerland A.G. and ELKO Marketing Ltd. AS ELKO Grupa has majority shareholding in all of the subsidiaries.

Financial risk management

Multi-currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from primarily with respect to US dollar, euro and Russian rubles. Foreign exchange risk arises from future multi-currency transactions and recognition of assets, liabilities and long-term investments in various currencies.

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

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

The sales of the Group are mainly in US dollars accordingly to minimize the currency risk the financing is also in US dollars.

Interest rate risk

The Group uses short-term borrowing for the partial financing of its current assets. All of the borrowings are at floating rate thus exposing the Group to interest rate risk.

Credit risk

Credit risk arises from the credit exposure to outstanding trade receivables. The Group has implemented procedures and control mechanisms to manage credit risk. Credit risk is partly minimized through credit risk insurance but mainly the risk is minimized by internally developed conservative credit monitoring policies. Individual risk limits are set based on internal or external ratings in accordance with the credit policy. The utilization of credit limits is regularly monitored.

Management report (cont'd)

Financial risk management (cont'd)

Inventories

The Group determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Group makes centralized plans for purchase and sale of the products. Furthermore the procedure for placing the orders has helped to decrease the inventory days. Weekly inventory analysis minimizes 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 the rights to claim the compensation on preordered goods in the warehouse in case of price reduction or decline in the market prices.

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 Group's management plans to increase the liquidity reserve based on the expected cash flows by improving the management of working capital.

Events after balance sheet date

On the 26th of October the Company extended its credit line in JSC DnB Nord Banka for USD 35m for two year period.



Egons Mednis

Chairman of the Board

President

Riga, November 05, 2010

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as of September 30, 2010 and of its financial operations for the nine month period ended 30 September, 2010. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

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



Egons Mednis

Chairman of the Board,
President

Riga, November 05, 2010

Consolidated balance sheet

	Note	2010.09.30	2009.12.31
ASSETS			
Non-current assets			
Property, plant and equipment		486	704
Intangible assets		142	164
		628	868
Current assets			
Inventories		131,247	49,162
Current income tax receivable		210	424
Trade and other receivables		70,438	62,980
Cash and cash equivalents		7,810	3,873
		209,705	116,439
Total assets		210,333	117,307
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	4	9,785	9,785
Share premium		4,974	4,974
Translation reserve		(131)	607
Retained earnings		36,201	31,229
		50,829	46,595
Minority interest in equity		1,916	1,711
Total equity		52,745	48,306
LIABILITIES			
Non-current liabilities			
Borrowings	5	68	68
		68	68
Current liabilities			
Trade and other payables		124,401	33,786
Current income tax liabilities		39	3
Borrowings	5	32,961	35,020
Provisions		119	124
		157,520	68,933
Total liabilities		157,588	69,001
Total equity and liabilities		210,333	117,307

The notes on pages 11 to 12 are an integral part of these consolidated financial statements.



Egons Mednis
President

Consolidated income statement

	Note	Jan-Sep 2010	Jan-Sep 2009
Revenue	2	384,406	314,900
Cost of sales		(370,256)	(305,255)
Gross profit		14,150	9,645
Distribution costs		(2,329)	(2,400)
Administrative expenses		(7,257)	(7,852)
Other income		2,464	1,704
Other expenses	3	(1,125)	(20,777)
Operating profit		5,903	(19,680)
Finance income		301	81
Finance costs		(1,554)	(1,929)
Finance income/ (costs) – net		(1,253)	(1,848)
Profit before income tax		4,650	(21,528)
Income tax expense	6	(164)	(192)
Profit for the year		4,486	(21,720)
Attributable to:			
Equity holders of the Company		4,230	(21,891)
Minority interest		256	171
		4,486	(21,720)
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in EUR per share)	7	0.62	(3.18)

The notes on pages 11 to 12 are an integral part of these consolidated financial statements.



Egons Mednis
President

Consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2009	9,785	4,974	(2,708)	52,680	64,731	2,255	66,986
Currency translation differences	-	-	3,315	(2,771)	544	(21)	523
Profit for the period	-	-	-	(18,680)	(18,680)	(465)	(19,145)
Total recognized income and expense for 2009	-	-	3,315	(21,451)	(18,136)	(486)	(18,622)
Dividend relating to 2008	-	-	-	-	-	(58)	(58)
Balance at 31 December 2009	9,785	4,974	607	31,229	46,595	1,711	48,306
Balance at 1 January 2010	9,785	4,974	607	31,229	46,595	1,711	48,306
Currency translation differences	-	-	(738)	742	4	(3)	1
Profit for the period	-	-	-	4,230	4,230	256	4,486
Total recognized income and expense for 2010	-	-	(738)	4,972	4,234	253	4,487
Dividend relating to 2009	-	-	-	-	-	(48)	(48)
Balance at 30 June 2010	9,785	4,974	(131)	36,201	50,829	1,916	52,745

The notes on pages 11 to 12 are an integral part of these consolidated financial statements.

Consolidated cash flows statement

	Jan-Sep 2010	Jan-Sep 2009
Cash flows from operating activities		
Profit before tax	4,650	(21,528)
Adjustment to reconcile profit before tax to net cash flows		
Depreciation and amortisation	316	381
(Profit)/ Loss on disposal of property, plant and equipment	(12)	5
Interest income	(301)	(81)
Interest expenses	1,554	1,929
Currency translation differences	(237)	913
Movements in allowances	(871)	(11)
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables	(6,592)	34,350
(Increase)/Decrease in inventories	(82,085)	32,417
Increase/(Decrease) in trade and other payables	90,615	20,475
Income tax paid	86	(205)
Net cash used in operating activities	7,123	68,645
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	26	
Purchases of fixed assets	(92)	(185)
Purchase of bonds	-	(475)
Proceeds from cash deposits	(1,050)	-
Interest received	301	81
Net cash used in investing activities	(815)	(579)
Cash flows from financing activities		
Repayments of borrowings, net	(817)	(57,785)
Interest paid	(1,554)	(1,929)
Dividends paid to the Company's shareholders	-	(4,725)
Dividends paid to the Minority shareholders	-	(58)
Net cash generated from financing activities	(2,371)	(64,497)
Net increase in cash and cash equivalents	3,937	3,569
Cash and cash equivalents at beginning of the year	3,873	4,592
Cash and cash equivalents at end of the period	7,810	8,161

The notes on pages 11 to 12 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 9 months ended 30 September 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

Accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in the annual consolidated financial statements for the year ended 31 December 2009.

2. Segment information

Geographical segments by location of customers

The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.

At 30 September 2010, it is organized into three main geographical segments by location of customers:

- (1) The Baltic area relates to Latvia, Lithuania and Estonia
- (2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania and Croatia
- (3) The area of CIS and other countries primarily relate to Russia and Ukraine.

The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.

Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating result. Unallocated remain operating expenses of the central operation.

The segment results for 9 months ended 30 September 2010 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	32,923	64,281	287,202		384,406
Inter-segment revenue	325,592	40		(325,632)	-
Revenue	358,515	64,321	287,202	(325,632)	384,406

The segment results for 9 months ended 30 September 2009 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	26,000	69,260	219,640	-	314,900
Inter-segment revenue	175,366	94	-	(175,460)	-
Revenue	201,366	69,354	219,640	(175,460)	314,900

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Unallocated assets comprise principally the central operations' equipment, inventory and other receivables from non-related parties.

The segment assets as at 30 September 2010 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	174,860	18,858	157,851	(141,236)	210,333

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	96,570	15,792	103,863	(98,918)	117,307

Notes to the consolidated financial statements (continued)

3. Other operating expenses

The other operating expenses decreased mainly to the fact that in the first half of 2009 the Company had to provide the provisions for doubtful receivables in amount of 22.5 million EUR.

4. Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2009: 6,877 thousand shares) with a value of EUR 1.42 per share (2009: EUR 1.42 per share). All issued shares are fully paid. There are no share options in any of the years presented.

5. Borrowings

	2010.09.30	2009.12.31
Non-current		
Finance lease liabilities	68	68
	68	68
Current		
Bank borrowings	28,390	29,353
Other borrowings	4,549	5,558
Finance lease liabilities	22	109
	32,961	35,020
Total borrowings	33,029	35,088

6. Taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average tax rate for 9 months ended 30 September 2010 is 3.8 % (the estimated tax rate for 9 months ended 30 September 2009 was negative 0.9%). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries, as well as the Group's policy on recognizing deferred tax assets.

7. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earning per share.

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There were no treasury shares.

	Jan-Sep 2010	Jan-Sep 2009
Profit attributable to equity holders of the Company	4,230	(21,891)
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (EUR per share)	0.62	(3.18)

8. Related party transactions

The transactions with related parties arise mainly from operating lease transactions. Particularly, rental services EUR 404 thousand, 2009: EUR 356 thousand were provided by AST BALTS that are controlled by some of the shareholders of the Company.

Accordingly the Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space. Since August 2008 the warehouse premises are used as central warehouse for Baltic region. In 2008 the Company has done additional prepayment for the rent in the amount of EUR 202 thousand.

9. Issued guarantees and pledges

AS Swedbank has issued guarantee in the amount of USD 2 million (EUR 1.6 million). All assets of ELKO GRUPA AS have been pledged as security in favour of AS DnB NORD Banka.

10. Subsequent events

On the 26th of October the company has extended its credit line in AS DnB NORD Bank for the amount of USD 35 million for two year period.