



## **ELKO GRUPA JSC**

Consolidated Financial Statements in EUR

For the year ended 31 December 2008

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## General information

Group name	ELKO GRUPA
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	Egons Mednis (9,57 %), Latvia Andris Putāns (9,79 %), Latvia Ēriks Strods (9,10 %), Latvia Kaspars Viškints (9,79 %), Latvia IT Investīcijas", AS (35,25 %), 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 (1,83%), Caimans island</i>
Council Members	Andris Putāns – Chairman of Council Indrek Kasela – Deputy Chairman of the Council Kaspars Viškints – Council Member Ēriks Strods – Council Member Aleksandrs Jampickis – Council Member (till 23.05.2008) Staņislavs Matvejevs – Council Member Vairis Brīze – Council Member Ainis Dābols – Council Member (from 23.05.2008) Valdis Lokenbahs – Council Member (from 23.05.2008)
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, CFO Ilgonis Inspēters – Board Member with representation powers, Director of the Marketing and Business Development Department Jānis Casno – Board Member with representation powers jointly with another Board Member, Executive Director (from 27.10.2008) Jānis Abāšins – Board Member with representation powers jointly with another Board Member, Executive Director (till 24.10.2008)
Reporting year	1 <sup>st</sup> January – 31 <sup>st</sup> December, 2008

**Consolidated balance sheet**

	Note	31.12.2008 EUR'000	31.12.2007 EUR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	996	760
Intangible assets	7	168	164
Deferred income tax assets	15	-	18
		<b>1,164</b>	<b>942</b>
<b>Current assets</b>			
Inventories	8	117,403	98,052
Current income tax receivable	15	896	55
Trade and other receivables	9	99,279	143,673
Prepayments		1,610	781
Cash deposits	10	704	-
Cash and cash equivalents		3,888	3,557
		<b>223,780</b>	<b>246,118</b>
<b>Total assets</b>		<b>224,944</b>	<b>247,060</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	11	9,785	9,785
Share premium	11	4,974	4,974
Translation reserve		(2,708)	(3,880)
Retained earnings		52,680	47,720
		<b>64,731</b>	<b>58,599</b>
<b>Minority interest in equity</b>		<b>2,255</b>	<b>2,764</b>
<b>Total equity</b>		<b>66,986</b>	<b>61,363</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	13	176	6,686
Deferred income tax liabilities		-	16
		<b>176</b>	<b>6,702</b>
<b>Current liabilities</b>			
Trade and other payables	12	60,835	116,624
Current income tax liabilities	15	545	1,858
Borrowings	13	96,212	60,357
Provisions	14	190	158
		<b>157,782</b>	<b>178,997</b>
<b>Total liabilities</b>		<b>157,958</b>	<b>185,699</b>
<b>Total equity and liabilities</b>		<b>224,944</b>	<b>247,060</b>

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.



Egons Mednis  
Chairman of the Board, 2 April 2009

**Consolidated income statement**

	Note	2008 EUR'000	2007 EUR'000
Revenue	16	719,085	747,048
Cost of sales	17	(690,629)	(707,337)
<b>Gross profit</b>		<b>28,456</b>	<b>39,711</b>
Distribution costs	17	(3,838)	(2,297)
Administrative expenses	17	(11,756)	(10,074)
Other income	19	3,026	1,938
Other expenses	20	(1,991)	(987)
<b>Operating profit</b>		<b>13,897</b>	<b>28,291</b>
Finance income		172	115
Finance costs		(4,493)	(2,999)
Finance income/ (costs) – net	21	(4,321)	(2,884)
<b>Profit before income tax</b>		<b>9,576</b>	<b>25,407</b>
Income tax expense	15	(865)	(2,056)
<b>Profit for the year</b>		<b>8,711</b>	<b>23,351</b>
<b>Attributable to:</b>			
Equity holders of the Company		8,946	22,378
Minority interest		(235)	973
		<b>8,711</b>	<b>23,351</b>
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in EUR per share)	22	<b>1.30</b>	<b>3.25</b>

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.



Egons Mednis  
Chairman of the Board

2 April 2009

## Consolidated statement of changes in equity

Note	Attributable to equity holders of the Company						
	Share capital	Share premium	Transla- tion reserve	Retained earnings	Total	Minority interest	Total equity
	<u>EUR '000</u>	<u>EUR '000</u>	<u>EUR '000</u>	<u>EUR '000</u>	<u>EUR '000</u>	<u>EUR '000</u>	<u>EUR '000</u>
<b>Balance at 1 January 2007</b>	<b>9,785</b>	<b>4,974</b>	<b>(1,676)</b>	<b>33,378</b>	<b>46,461</b>	<b>2,151</b>	<b>48,612</b>
Currency translation differences	-	-	(2,204)	-	(2,204)	(11)	(2,215)
Profit for the year	-	-	-	22,378	22,378	973	23,351
<b>Total recognized income and expense for 2007</b>	<b>-</b>	<b>-</b>	<b>(2,204)</b>	<b>22,378</b>	<b>20,174</b>	<b>962</b>	<b>21,136</b>
Dividend relating to 2006	23	-	-	(8,036)	(8,036)	(349)	(8,385)
<b>Balance at 31 December 2007</b>	<b>9,785</b>	<b>4,974</b>	<b>(3,880)</b>	<b>47,720</b>	<b>58,599</b>	<b>2,764</b>	<b>61,363</b>
<b>Balance at 1 January 2008</b>	<b>9,785</b>	<b>4,974</b>	<b>(3,880)</b>	<b>47,720</b>	<b>58,599</b>	<b>2,764</b>	<b>61,363</b>
Currency translation differences	-	-	1,172	282	1,454	124	1,578
Profit for the year	-	-	-	8,947	8,947	(235)	8,712
<b>Total recognized income and expense for 2008</b>	<b>-</b>	<b>-</b>	<b>1,172</b>	<b>9,229</b>	<b>10,401</b>	<b>(111)</b>	<b>10,290</b>
Dividend relating to 2007	23	-	-	(4,269)	(4,269)	(398)	(4,667)
<b>Balance at 31 December 2008</b>	<b>9,785</b>	<b>4,974</b>	<b>(2,708)</b>	<b>52,680</b>	<b>64,731</b>	<b>2,255</b>	<b>66,986</b>

Retained earnings are EUR 52,680 thousand (2007: EUR 47,720 thousand), of which EUR 61 thousand (2007: EUR 66 thousand) are statutory reserves and are not a subject to distribution in dividends.

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.



Egons Mednis  
Chairman of the Board

2 April 2009

**Consolidated cash flows statement**

	Note	2008 EUR'000	2007 EUR'000
<b>Operating activities</b>			
Profit before tax		9,576	25,407
Adjustment to reconcile profit before tax to net cash flows			
Depreciation and impairment of property, plant and equipment		387	265
Amortisation and impairment of intangible assets		39	18
Loss (Gain) on disposal of property, plant and equipment		42	(24)
Interest income		(172)	(115)
Interest expenses		4,493	2,985
Movements in allowances		208	-
Working capital adjustments:			
Decrease/(Increase) in trade and other receivables		44,659	(84,284)
(Increase)/Decrease in inventories		(19,392)	11,097
(Decrease)/Increase in trade and other payables		(55,789)	35,590
Income tax paid		(2,558)	(1,130)
<b>Net cash used in operating activities</b>		<b>(18,507)</b>	<b>(10,189)</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		-	48
Purchases of property, plant and equipment		(675)	(377)
Purchases of intangible assets		(53)	(138)
Increase in cash deposits		(704)	-
Interest received		172	115
<b>Net cash used in investing activities</b>		<b>(1,260)</b>	<b>(352)</b>
<b>Financing activities</b>			
Proceeds from borrowings		89,702	20,461
Repayments of borrowings		(60,357)	(1,807)
Interest paid	21	(4,493)	(2,740)
Dividends paid to equity holders of the parent	23	(4,458)	(3,122)
Dividends paid to minority interests		(296)	(349)
<b>Net cash generated from financing activities</b>		<b>20,098</b>	<b>12,443</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>331</b>	<b>1,902</b>
Cash and cash equivalents at beginning of the year		3,557	1,655
<b>Cash and cash equivalents at end of the year</b>		<b>3,888</b>	<b>3,557</b>

The notes on pages 8 to 36 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. General information

A/S ELKO Grupa ("the 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, Acer, Sony, Toshiba, Samsung, Tom-Tom, Asus and Logitech.

The 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 2 April 2009 and signed on its behalf by the Chairman of the Board Egons Mednis.

Shareholders have the right to make amendments to the financial statements approved by the Board.

The Company has the following participating interest in the subsidiaries:

Name	Country	Participating interest in share capital of subsidiaries	
		31.12.2008	31.12.2007
		%	%
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%	80%
ELKO Trading Switzerland AG	Switzerland	100%	100%
ELKO Marketing Limited	Cyprus	100%	100%
Statex Consulting Limited	British Virgin Islands	100%	100%
Alma Limited	Russia	100%	100%

### 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 of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued and effective at the time of preparing these financial statements and as adopted by the European Union.

A euro (EUR) is the reporting currency of the Group in accordance with the regulation of Riga Stock Exchange. All amounts in the consolidated financial statements including note disclosures are stated in thousands, rounded to the nearest thousand, unless stated otherwise.



## Notes to the consolidated financial statements (continued)

### 2.1 Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

### 2.2 Changes in accounting policy and disclosures

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets;
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.

The principal effects of these changes are as follows:

- Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments caught by these amendments.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments caught by this interpretation.

- IFRIC 12 – Service Concession Arrangements

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans.

#### *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:

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. 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 once adopted by the EU).

## Notes to the consolidated financial statements (continued)

### 2.2 Changes in accounting policy and disclosures (continued)

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 8 Operating Segments (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

## Notes to the consolidated financial statements (continued)

**2.2 Changes in accounting policy and disclosures (continued)*****Improvements to IFRSs***

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarification that all of a subsidiary's assets and liabilities are classified as held for sale, even when the entity will retain a non-controlling interest in the subsidiary after the sale.
- IFRS 7 Financial Instruments: Disclosures. Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 1 Presentation of Financial Statements. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period. Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- IAS 18 Revenue. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- 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.
- IAS 27 Consolidated and Separate Financial Statements. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 28 Investment in Associates. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- IAS 29 Financial Reporting in Hyperinflationary Economies. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 34 Interim Financial Reporting. Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- 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'.
- IAS 38 Intangible Assets. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. 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.

## Notes to the consolidated financial statements (continued)

**2.2 Changes in accounting policy and disclosures (continued)**

- IAS 39 Financial Instruments: Recognition and Measurement. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- IAS 41 Agriculture. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives (effective for financial years ending on or after 30 June 2009 once adopted by the EU).

The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39 and IFRS 7 issued in October 2008. The Group did not have financial instruments caught by these amendments.

- IFRIC 12 Service Concession Arrangements (effective once adopted by the EU).  
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.
- IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008).  
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.
- 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 2009).  
This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group.
- IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).  
The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).  
The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group does not have hedges of net investments.
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).  
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 an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

## Notes to the consolidated financial statements (continued)

### 2.3 Consolidation

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

#### *(a) 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 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 minority 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 income statement.

#### *(b) Intra-Group transactions and minority 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 minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority 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.

### 2.4 Segment reporting

The Group operates in different geographical areas that are subject to different risks and returns. The only segment assessed for the Group is geographical segment.

### 2.5 Foreign currency translation

#### *(a) Functional and presentation Currency*

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.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### *(c) Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into Euros (EUR) as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);

All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

## Notes to the consolidated financial statements (continued)

### 2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment, Historical cost includes expenditure that is directly attributable to the acquisition of the items, Borrowing costs are not capitalised.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost of assets to their residual values over their estimated useful lives, as follows:

	% per annum
– Motor vehicles	25
– Communication equipment	50
– Computers and other data accumulating equipment	50
– Other fixtures and fittings	20

Depreciation rates have been reviewed and deemed appropriate for the financial year ending 31, December 2008.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

### 2.7 Intangible assets

Group's intangible assets mainly include acquired computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 years).

### 2.8 Impairment of non-financial assets

The Group does not have non-current assets that are not subject to amortisation. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## Notes to the consolidated financial statements (continued)

**2.9 Financial assets**

The Group classifies its financial assets in the following categories: loans and receivables and at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets, Loans and receivables are classified as trade and other receivables in the balance sheet.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment that is accounted for in a separate allowance account. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

In estimating the required provisions, the Company takes into consideration the overall quality and aging of the receivable portfolio, the existence of credit insurance.

Specifically identified customer risks and historical write-off experience the amount of the allowance is the difference between the amortised cost and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Trade receivables, which are sold to factoring company under recourse conditions, remain on the balance sheet as an asset. Corresponding liability is recognised within borrowings.

*Financial assets at fair value through profit or loss*

Since hedge accounting is not applied to derivative financial instruments these are classified as held for trading within financial instruments at fair value through profit or loss. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The changes in the fair value of derivative instruments are recognised immediately in the income statement. The Group's use of derivative financial instruments has been limited to interest rate swaps and interest options used to reduce the Group's exposure to changes in floating interest rates. These agreements have been terminated in November 2007. The Group does not have other financial assets within this category.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

## Notes to the consolidated financial statements (continued)

### 2.10 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.

### 2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

### 2.12 Share capital and dividend distribution

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

Dividend distribution to the 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 Company's shareholders.

### 2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.14 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.

### 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, 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 profit or loss 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.

### 2.16 Borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.



## Notes to the consolidated financial statements (continued)

### 2.17 Taxes

#### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected 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 balance sheet date.

#### Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of any 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;

and

- 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 income 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 income 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; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income 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 income tax assets is reviewed at each balance sheet 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to 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 balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

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

### 2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## Notes to the consolidated financial statements (continued)

### 2.18 Revenue recognition (continued)

#### Sales of goods – wholesale

Sales of goods are recognized when a group entity has transferred the risk and rewards, i.e. it has delivered products to the client and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery does not occur until the products have been shipped from warehouse, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the invoices, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases.

#### Sales 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 income statement. 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

Interest income is recognised on a time-proportion basis using the effective interest method.

#### Other income

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

### 2.19 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 income statement 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.

### 2.20 Leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases; Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments;

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. 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. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (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.

## Notes to the consolidated financial statements (continued)

### 2.21 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 company 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.

### 2.22 Going concern

According to the financial covenants in the loan and bond agreements the Company 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 Company has failed to comply with the financial covenant on certain profitability ratio. According to IFRS 7.19 and prudence principle if the Company is in breach of financial covenants the loans and bonds payable should be disclosed as short term (please see note 13). During 2009 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 2008 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union.

The operations of the Company is considerably dependant on the operations in CIS region, accordingly as described in the paragraph below on legislative risk the future operations of the Company can be affected by legislative risk aspects in CIS countries.

## 3. Financial risk management objectives and policies

### 3.1 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 Company 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.

#### *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 the US dollars. The sales from the Company to subsidiaries are done in the 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 the US dollars. Although the subsidiaries carry out the sales in the local currencies, the prices in the market tend to follow the purchasing currency the 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 9 and 12).

The Group has investments in foreign operations, which net assets are exposed to foreign currency translation risk. As at 31 December 2008, the Group did not have any hedging agreements.

## Notes to the consolidated financial statements (continued)

**3.1 Financial risk factors (continued)*****Market risk (continued)****Foreign exchange risk (continued)*

The following table demonstrates the sensitivity to a reasonably possible changes of the US dollar exchange rate to other currencies used by the Company, 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 forward exchange contracts and net investment hedges).

Increase / decrease In US dollar rate	Effect on profit ( <sup>'000</sup> )	Effect on equity ( <sup>'000</sup> )
2008		
+5%	68	68
-5%	(68)	(68)
2007		
+5%	458	458
-5%	(458)	(458)

*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 year 2008, the Group's borrowings at variable rate were predominantly denominated in the US dollars and Euro (Note 13).

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> )
2008	+10	89
2008	- 10	(89)
2007	+10	56
2007	- 10	(56)

***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 9 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 maximum exposure as at 31 December 2008 is EUR 85,680 thousands (2007: EUR 102,952 thousand).

## Notes to the consolidated financial statements (continued)

**3.1 Financial risk factors (continued)***Market risk (continued)**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 2008 based on contractual undiscounted payments:

<b>Year ended</b> <b>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	-	-	100,250	-	100,250
Dividends	4,835	-	-	-	4,835
Trade and other payables	-	56,000	-	-	56,000

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments:

<b>Year ended</b> <b>31/12/2007</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	-	-	-	7,345	7,345
Current borrowings	-	-	62,004	-	62,004
Dividends	4,915	-	-	-	4,915
Trade and other payables	-	111,709	-	-	111,709

*Legislative risk*

The Company 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 Company 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 5.

## Notes to the consolidated financial statements (continued)

**3.2 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.

**3.3 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.

The Group monitors capital using the following ratios:

	31.12.2008	31.12.2007
<b>Consolidated financials</b>		
Equity without minority Interest	64,731	58,599
Total assets	224,944	247,060
<b>Equity ratio</b>	<b>29%</b>	<b>24%</b>
Net Debt	91,796	63,486
Total equity	66,986	61,363
<b>Net Liabilities/ Equity</b>	<b>1.37</b>	<b>1.03</b>
EBIT	14,069	28,406
Interest payments	4,493	2,999
<b>EBIT/Interest payments</b>	<b>3.1</b>	<b>9.5</b>
Total Debt	96,388	67,043
EBIT	14,069	28,406
<b>Total DEBT/EBIT</b>	<b>6.8</b>	<b>2.4</b>

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

## Notes to the consolidated financial statements (continued)

**4 Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

***Vendor programs***

The Group has to apply use of estimates about the credit notes due from vendors at the date of the balance sheet 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 for the year ended 31 December 2008 amounted to EUR 3,002 thousand (2007: EUR 4,420 thousand) based on the individual vendor agreements.

The Company does not expect any additional unrecognized rebate to be received related to year 2008.

***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 15).

***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 Group does not have contractual rights to claim price protection to many of its vendors. Even when the contractual rights exist the announcement of 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 83 thousand (2007: EUR 453 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 8).

***Impairment of trade receivables***

Significant judgment is applied, when estimating the provisions for impairment of trade receivables (Note 9).

***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 14.

***Revenue recognition***

The Group's sales to CIS and other countries segment (Note 5) 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 (Note8).

## Notes to the consolidated financial statements (continued)

**5. Segment information***Geographical segments by location of customers*

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

At 31 December 2008, it is organized into three main geographical segments by location of customers:

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

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

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

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

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	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

The segment results for the year ended 31 December 2007 are as follows:

	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Third-party revenue	73,111	127,546	546,785	(394)	747,048
Inter-segment revenue	616,841	225	20,893	(637,959)	-
<b>Revenue</b>	<b>689,952</b>	<b>127,771</b>	<b>567,678</b>	<b>(638,353)</b>	<b>747,048</b>
Operating profit / Segment result	6,086	2,637	20,294	(724)	28,291

Segment assets consist primarily of equipment, intangible assets, inventories, trade and other receivables, cash and cash equivalents. Assets comprise principally the central operations' equipment; inventory and other receivables. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise the central operation's borrowings and other trade payables. Capital expenditure comprises additions to equipment (Note 6) and intangible assets (Note 7).



## Notes to the consolidated financial statements (continued)

**5. Segment information (continued)**

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

	Year ended				
	31 December 2008				
	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	175,150	24,255	202,054	(176,515)	224,944
Liabilities	141,651	20,044	171,067	(174,804)	157,958
Capital expenditure (Note 7)	26	27	-	-	53
Amortisation (Note 7)	16	23	-	-	39
Capital expenditure (Note 6)	426	254	-	-	675
Depreciation (Note 6)	266	125	-	-	387

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year ended are as follows:

	Year ended				
	31 December 2007				
	The Baltic	Central and Eastern Europe	CIS and other countries	Adjustments and eliminations	Group
Assets	229,945	19,916	215,272	(218,073)	247,060
Liabilities	171,211	14,099	183,891	(183,502)	185,699
Capital expenditure (Note 7)	54	84	-	-	138
Amortization (Note 7)	10	8	-	-	18
Capital expenditure (Note 6)	367	169	-	-	536
Depreciation (Note 6)	175	90	-	-	265

## Notes to the consolidated financial statements (continued)

**6. Property, plant and equipment**

	Leasehold improvements	Communication and computer engineering	Other fixed assets	Total
<b>At 31 December 2006</b>				
Cost	203	504	1281	1,988
Accumulated depreciation	(203)	(440)	(841)	(1,484)
<b>Net book amount</b>	<b>-</b>	<b>64</b>	<b>440</b>	<b>504</b>
<b>Year ended 31 December 2007</b>				
Opening net book amount	-	64	440	504
Exchange differences	-	-	10	10
Additions	23	176	337	536
Disposals at cost	-	(1)	(24)	(25)
Depreciation charge (Note 17)	(9)	(81)	(175)	(265)
<b>Closing net book amount</b>	<b>14</b>	<b>158</b>	<b>588</b>	<b>760</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 reverse on disposals	204	128	530	861
Depreciation charge (Note 17)	(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 or valuation	20	799	1,403	2,222
Accumulated depreciation	(18)	(520)	(688)	(1,226)
<b>Net book amount</b>	<b>2</b>	<b>279</b>	<b>715</b>	<b>996</b>

Depreciation expenses of tangible assets in the amount of EUR 387 thousand (2007: EUR 263 thousand) have been charged in income statement and are shown in administrative expenses.

All tangible assets have been pledged to secure bank credit lines (Note 13).

## Notes to the consolidated financial statements (continued)

**7. Intangible assets**

	<u>Software</u>
<b>At 31 December 2006</b>	
Cost	433
Accumulated amortisation	(388)
<b>Net book amount</b>	<b>44</b>
<b>Year ended 31 December 2007</b>	
Opening net book amount	44
Exchange differences	-
Additions	138
Amortisation charge (Note 17)	(18)
<b>Closing net book amount</b>	<b>164</b>
<b>At 31 December 2007</b>	
Cost	571
Accumulated amortisation	(407)
<b>Net book amount</b>	<b>164</b>
<b>Year ended 31 December 2008</b>	
Opening net book amount	164
Exchange differences	(10)
Additions	53
Amortisation charge (Note 17)	(39)
Disposals at cost	(111)
Amortisation reverse on disposal	111
<b>Closing net book amount</b>	<b>167</b>
<b>At 31 December 2008</b>	
Cost	513
Accumulated amortisation	(345)
<b>Net book amount</b>	<b>168</b>

Amortisation expenses of intangible assets in the amount of EUR 39 thousand (2007: EUR 18 thousand) have been charged in income statement and are shown in administrative expenses.

All intangible assets have been pledged to secure bank credit lines (Note 13).

## Notes to the consolidated financial statements (continued)

**8. Inventories**

	<b>2008</b>	<b>2007</b>
Trade inventory	116,430	77,049
Trade inventory in transit	708	20,930
Prepayments for trade inventory	304	73
Allowance for impairment of inventory	(39)	-
	<b>117,403</b>	<b>98,052</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 is EUR 454 thousand (2007: EUR 505 thousand) are charged to distribution costs in the income statement (Note 17).

The cost of inventories recognised as expense and included in cost of sales amounted to EUR 690,629 thousand (2007: EUR 707,337 thousand). Inventory in the amount of EUR 24,491 thousand (2007: EUR 33,327 thousand) have been pledged to secure bank credit lines

Of the total inventories consignment inventories as at 31 December 2008 was EUR 81,679 thousand (2007: EUR 60,547 thousand).

**9. Trade and other receivables**

	<b>2008</b>	<b>2007</b>
Trade receivables	98,627	140,417
Less: allowance for impairment of trade receivables	(308)	(171)
Trade receivables – net	<b>98,319</b>	<b>140,246</b>
VAT receivable	627	418
Personal income tax receivable	1	-
Other tax receivable in foreign countries	36	2,665
Other debtors	296	344
	<b>99,279</b>	<b>143,673</b>

Trade receivables in the amount of EUR 153,667 thousand (2007: EUR 166,079 thousand) have been pledged to secure bank credit lines (Note 13).

Trade receivables are non-interest bearing and are generally on 30 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;30 day</b>	<b>30-60 day</b>	<b>60-90 day</b>	<b>90-120 day</b>	<b>&gt;120 day</b>
<b>2008</b>	98,319	60,534	31,757	4,115	1,908	5	-
<b>2007</b>	140,246	124,471	12,440	2,700	544	38	53

## Notes to the consolidated financial statements (continued)

**9. Trade and other receivables (continued)**

The ageing of impaired receivables is as follows:

	2008	2007
3 to 6 month	10	74
Over 6 month	303	134
	<b>313</b>	<b>208</b>

As at 31 December 2008, trade receivables at nominal value of EUR 313 thousand (2007: EUR 208 thousand) were impaired and provided for. The amount of the allowance was EUR 308 thousand (2007: EUR 171 thousand).

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

	2008	2007
<b>At 1 January</b>	171	249
Impairment charge (individual basis)	308	171
Receivables written off during the year as uncollectible	(171)	(249)
<b>At 31 December</b>	<b>308</b>	<b>171</b>

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

The carrying amounts of the Group's trade, other receivables and prepayments are denominated in the following currencies:

	2008	2007
USD	79,651	120,272
LVL	6,579	10,798
RON	4,041	4,101
LTL	3,839	3,009
SKK	2,675	2,013
Other currencies	4,104	4,260
	<b>100,889</b>	<b>144,454</b>

**10. Cash deposits**

The effective interest rate on the cash deposits as at 31 December 2008 was 4,36% (2007: 1,4%). Deposited EUR 704 (USD 1,000) thousands for period 03.10.2008-03.04.2009.

**11. Share capital**

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2007: 6,877 thousand shares) with a par value of EUR 1,423 per share (2007: EUR 1,423 per share). All issued shares are fully paid. There is no share options in any of the years presented. All issued shares were purchased by cash contribution.

## Notes to the consolidated financial statements (continued)

**12. Trade and other payables**

	<b>2008</b>	<b>2007</b>
Trade payables	49,908	107,524
Social security and other taxes	968	1,399
Unpaid dividends	4,835	4,915
Unpaid salaries	125	86
Other	238	56
Accrued expenses	4,761	2,644
	<b>60,835</b>	<b>116,624</b>

The carrying amounts of the Company's trade payables are denominated in the following currencies:

	<b>2008</b>	<b>2007</b>
LVL	390	541
USD	37,807	103,242
EUR	5,509	1,390
SKK	855	983
HRK	300	273
RON	5,030	950
Other currencies	17	145
	<b>49,908</b>	<b>107,524</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.

## Notes to the consolidated financial statements (continued)

**13. Borrowings**

Interest-bearing loans and borrowings:

Current	Interest rate %	Maturity	2008	2007
<b>Obligations under finance lease and hire purchase contracts</b>	EURIBOR + 3,25%	2009/2008	132	116
<b>Bank overdrafts</b>				
Credit line from AS DnB Nord Banka (Latvia)	USD LIBOR3M + 1,85%	28.09.2010	10,565	-
Credit line from AS DnB Nord Banka (Latvia)	USD LIBOR3M + 1,70%	28.09.2010	69,122	-
Credit line from AS DnB Nord Banka (Latvia)	USD LIBOR3M + 0,75%	29.09.2008	-	50,178
Credit line from Ľudová bank (Slovakia)	USD LIBOR1M + 0,55%	30.04.2008	-	847
Credit line from Volksbank a.s. (Slovakia)	USD LIBOR1M + 0,55%	30.04.2009	2,661	-
Credit line from UniCredit Tiriac Bank (Romania)	USD LIBOR + 1,6%	15.05.2008	-	1,830
Credit line from UniCredit Tiriac Bank (Romania)	EURIBOR O/N + 3,5%	27.11.2009	2,543	-
Credit line from DNB Nord (Lithuania)	LIBOR + 1,3%	01.12.2008	-	3,045
Credit line from SKB D.D. (Slovenia)	EURIBOR6M + 1,65%	06.11.2009	775	-
<b>Other loans:</b>				
Bonds (Latvia)	10% p,a (fixed interest rate)	29.11.2010	6,500	-
Loan from GE Money Bank (Latvia)	USD LIBOR3M + 1.1%	30.03.2009	3,169	-
Loan from AS DnB Nord Banka (Latvia)	10% p,a (fixed)	29.09.2008	-	3,443
Loan from SKB bank (Slovenia)	5,522 %	14.11.2008	-	697
Loan from SKB bank (Slovenia) in EUR	5,522 %	03.12.2008	-	201
Other loans from ELBATEX (Slovenia) in EUR	5,642 %	24.12.2009	397	-
Other - Intel credits, CIM, credit cards (Latvia)			348	-
			<b>96,212</b>	<b>60,357</b>
<b>Non-current</b>				
Obligations under finance lease and hire purchase contracts	EURIBOR + 3,25%	28.11.2011	176	186
<b>Other loans:</b>				
Bonds	10% p,a (fixed interest rate)	29.11.2010	-	6,500
			<b>176</b>	<b>6,686</b>
			<b>96,388</b>	<b>67,043</b>

At the end of the year the Company has failed to comply on the financial covenant on profitability accordingly the creditlines with the maturity over the one year as well as the bonds are disclosed as short term. Please see also note 2.22 Going concern.

## Notes to the consolidated financial statements (continued)

**13. Borrowings (continued)**

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

	2008	2007
USD	85,886	56,297
EUR	10,499	10,740
other	3	6
	<b>96,388</b>	<b>67,043</b>

Most of the borrowings are provided in a form of bank credit lines amounting to EUR 85,621 thousand (2007: EUR 60,240 thousand). Borrowings are secured by property, plant and equipment, intangible assets, trade receivables and inventory (Notes 6, 7, 9 and 8). 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 2008 was 4,47% (2007: 6,23 %).

The Group has the following undrawn borrowing facilities:

	31.12.2008	31.12.2007
Credit line limit	86,849	67,768
Credit line used	(85,621)	(60,240)
	<b>1,228</b>	<b>7,528</b>

***Finance leases***

The present value of finance lease liabilities is as follows:

	2008	2007
No later than 1 year	133	116
Later than 1 year and no later than 5 years	176	186
	<b>309</b>	<b>302</b>

Finance lease liabilities – minimum lease payments:

No later than 1 year	141	122
Later than 1 year and no later than 5 years	188	196
	329	318
Future finance charges on finance costs	(20)	(16)
Present value of finance lease liabilities	<b>309</b>	<b>302</b>

The effective interest rate on the finance leases as at 31 December 2008 was 6,30 % (2007: 5,61%).

**14. Provisions**

	2008	2007
<b>Beginning of year</b>	158	307
Charged / (credited) to the income statement:		
– Additional provisions	85	40
– Used during year	(53)	(189)
<b>End of year</b>	<b>190</b>	<b>158</b>

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



## Notes to the consolidated financial statements (continued)

**15. Income tax expense**

	<b>2008</b>	<b>2007</b>
Current tax	881	2,048
Deferred tax	(16)	8
	<b>865</b>	<b>2,056</b>

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:

Profit before tax	<b>9,181</b>	<b>25,407</b>
Tax at the domestic rates applicable to profits in the country concerned	1,157	2,075
Income not subject to tax	(433)	(100)
Expenses not deductible for tax purposes	168	157
Tax discount for donations	(27)	(76)
Tax charge	<b>865</b>	<b>2,056</b>

The weighted average applicable tax rate was 12,6% (2007: 8,1%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

**16. Revenue**

	<b>2008</b>	<b>2007</b>
Desktop components	335,219	399,803
Notebooks	242,590	209,623
Monitors	50,415	50,287
Solution products	39,842	32,864
Consumer and multimedia	34,698	45,637
Peripherals	16,292	8,834
Other	29	-
	<b>719,085</b>	<b>747,048</b>

**17. Expenses by nature**

	<b>2008</b>	<b>2007</b>
Trade inventory sold	690,629	707,337
Employee benefit expense	8,123	5,719
Professional fees	1,646	1,231
Transportation expenses	1,688	1,157
Rent and office maintenance expenses	1,242	855
Advertising costs	1,016	370
Write-off of damaged goods	454	505
Depreciation and amortisation charges (Notes 6, 7)	426	283
Other expenses	999	2,251
	<b>706,223</b>	<b>719,708</b>

## Notes to the consolidated financial statements (continued)

**18. Employee benefit expenses**

	2008	2007
Wages and salaries	6,296	4,596
Social security costs	1,500	979
Other employment benefits	327	144
	<b>8,123</b>	<b>5,719</b>

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

**19. Other income**

	2008	2007
Income from services provided	2,920	1,771
Gain from disposal of fixed assets	38	23
Other income	68	144
	<b>3,026</b>	<b>1,938</b>

**20. Other expenses**

	2008	2007
Net loss from foreign exchange influence	1,160	330
Penalties and similar expenses	403	317
Direct operating expenses arising on providing services	222	188
Other expenses	206	152
	<b>1,991</b>	<b>987</b>

**21. Finance income and costs**

	2008	2007
Interest expense:		
– Bank borrowings	(4,472)	(2,941)
– Other interests	(21)	(30)
Loss from changes in the fair value of derivative financial instruments (Note 9)	-	(28)
Finance costs	<b>(4,493)</b>	<b>(2,999)</b>
Finance income:		
– Interest income on short-term bank deposits	122	65
– Other interest income	50	50
Finance income	<b>172</b>	<b>115</b>
Net finance costs	<b>(4,321)</b>	<b>(2,884)</b>

## Notes to the consolidated financial statements (continued)

**22. 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.

	<b>2008</b>	<b>2007</b>
Profit attributable to equity holders of the Company	8,946	22,378
Weighted average number of ordinary shares in issue (thousands)	6,877	6,877
Basic earnings per share (EUR per share)	1.30	3.25

**23. 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 4,269 thousand (EUR 0,62 per share); in 2007 the calculated dividends were EUR 8,036 thousand (EUR 1,17 per share).

**24. Related-party transactions**

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

	<b>% for Share Capital</b>	
	<b>2008</b>	<b>2007</b>
Egons Mednis, President of Company	9,57	9,57
Andris Putans, Chairman of the Council	9,79	9,79
Eriks Strods, Member of the Council	9,10	9,10
Kaspars Viskints, Member of the Council	9,79	9,79
IT Investicijas, A/S, 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:	8,83	8,83
- <i>East Capital Bering Russia fund, Caimans island</i>	3,50	-
- <i>Concentra Ltd on behalf East Capital Bering Ukraine fund, Caimans island</i>	3,50	-
- <i>Dalepole Ltd on behalf of East Capital Bering New Europe fund, Caimans island</i>	1,83	-

*(a) 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 236 thousand (2007: EUR 199 thousand).

	<b>2008</b>	<b>2007</b>
The Board members' remuneration:		
- salary expenses	191	164
- social insurance	45	35
	<b>236</b>	<b>199</b>

*(b) Transactions with related parties:*

The payables to related parties arise mainly from operating lease transactions. Particularly, rental services in amount of EUR 555 thousand (2007: EUR 310 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 2009.

## Notes to the consolidated financial statements (continued)

**24. Related-party transactions (continued)**

*(b) Transactions with related parties (continued):*

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 balance sheet date presented.

**25. Commitments**

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.

The Group has no capital commitments at the balance sheet date.

**26. Issued guarantees and pledges**

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantee in the amount of USD 2,000 thousand in favour of INTEL INTERNATIONAL B.V. Guarantee serves as a partial security of A/S ELKO GRUPA purchases on credit to INTEL INTERNATIONAL B.V. The issued guarantee will expire in April 29' 2009.

A/S DnB NORD Banka with mediation of DnB NOR Bank ASA has issued a stand by letter of credit in the amount of USD 9,500 thousand in favour of ASUS Technology PTE LTD. The letter of credit serves as a partial security of A/S ELKO GRUPA purchases on credit to ASUS Technology PTE LTD. During February 2009 guarantee was reduced till USD 3,500 thousands.

All assets of JSC ELKO GRUPA has pledged as security in favour of A/S DnB NORD Banka.

For pledges see Note 6, Note 7, Note 8, Note 9 and Note 13.

**27. Subsequent events**

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 2008.

**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of AS Elko Grupa

**Report on the Financial Statements**

We have audited the accompanying 2008 consolidated financial statements of AS Elko Grupa, and its subsidiaries (the "Group"), which are set out on pages 4 through 36 and which comprise the consolidated balance sheet as at 31 December 2008, the consolidated statements of 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 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.

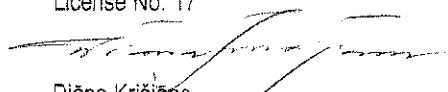
**Opinion**

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 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 3.1 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

SIA Ernst & Young Baltic  
License No. 17



Diāna Krišjāne  
Chairperson of the Board



Jekaterina Stūge  
Latvian Certified Auditor  
Certificate No. 143

Rīga, 2 April 2009