ELKO GRUPA AS

Unaudited Consolidated Interim Financial Statements

For 3 months ended 31 March 2010 (USD)

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AS ELKO GRUPA MANAGEMENT REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED 31 MARCH 2010

Business activities

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

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

Financial analysis

ELKO Grupa AS turnover in year Q1 2010 has reached USD 160.5m that constitutes 9.6% increase from the corresponding period in 2009. Gross margin has increased by 11.0% and reached USD 6.2m. The increase in both turnover and gross margin results demonstrates that the Company has recovered from the local market contractions and the global financial crisis that affected Company's performance in 2009.

During the market contraction phase Company implemented strict cost cutting policy where the most substantial savings were achieved on personnel costs, which decreased from USD 2.7m in Q1 2009 to USD 2.2m in Q1 2010. In Q1 2010 other expenses decreased to USD 7 thousand comparing to USD 4.4m in Q1 2009, where difference is related to provisions for bad debts in the amount of 4.1m USD which the Company made as a result of customer defaults on their payments.

The equity ratio of the company calculated as equity over assets is 29.7% and has experienced decrease from 41.2% on December 31, 2009. The decrease in equity ratio is primarily related to the seasonality of the business. At the same time the Company has also gradually strengthened its financial leverage as the borrowings-to-equity ratio has decreased from 0.73 to 0.69.

Prospects

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

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

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

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

Management report (cont'd)

Prospects (cont'd)

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

Significant events during reporting period

In 2010 the Company has become the distributor of Microsoft products in Russia.

AS ELKO Grupa structure

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

Financial risk management

Multi-currency risk

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

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

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

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

Interest rate risk

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

Credit risk

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

Inventories

AS ELKO Grupa determines the amount of inventories based on the expected future demand and market saturation. Any changes in the demand and/or rapid obsolescence of the products or technological changes will result in excess stock and accumulation of obsolete items. The Company makes centralized plans for purchase and sale of the products. Furthermore the procedure for placing the orders has helped to decrease the inventory days. Weekly inventory analysis minimizes the need to establish provisions for obsolete items.

The risk related to product flow management is partially reduced through price protection arrangements under the cooperation agreements with major vendors. The agreements provide the rights to claim the compensation on preordered goods in the warehouse in case of price reduction or decline in the market prices.

Management report (cont'd)

Financial risk management (cont'd)

Liquidity risk

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

Events after balance sheet date

Except for the aforementioned events there are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as of March 31, 2010.

Egons Mednis

Chairman of the Board

President

Riga, May 14, 2010

Grow to succeed. ELKO Group.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of AS ELKO Grupa confirms that based on the information available at the time of the preparation of the financial statements, the consolidated interim financial statements give true and fair view in all material aspects of the financial position of the Group as of March 31, 2010 and of its financial operations for the year quarter ended 31 March, 2010. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. During the preparation of the financial statements the management has:

on consistent basis applied appropriate accounting methods;

has provided well-grounded and prudent conclusions and evaluations;

has followed the going concern principle.

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

Egons Mednis

Chairman of the Board,

President

Riga, May 14, 2010

(All amounts in USD thousands unless otherwise stated)

Consolidated balance sheet

	Note	31.03.2010	31.12.2009
ASSETS			
Non-current assets			
Property, plant and equipment		853	1 011
Intangible assets		212	236
		1 065	**1 247**
Current assets			
Inventories		129 283	70 657
Current income tax receivable		672	610
Trade and other receivables		94 675	90 516
Cash and cash equivalents		9 218	5 567
		233 848	**167 350**
Total assets		**234 913**	**168 597**

	Note	31.03.2010	31.12.2009
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	4	11 114	11 114
Share premium		5 996	5 996
Translation reserve		(4)	(59)
Retained earnings		49 710	49 917
		66 816	**66 968**
Minority interest in equity		**2 994**	**2 459**
Total equity		**69 810**	**69 427**
LIABILITIES			
Non-current liabilities			
Borrowings	5	92	98
		92	**98**
Current liabilities			
Trade and other payables		117 019	48 558
Current income tax liabilities		2	4
Borrowings	5	47 829	50 332
Provisions		161	178
		165 011	**99 072**
Total liabilities		**165 103**	**99 170**
Total equity and liabilities		**234 913**	**168 597**

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

Egons Mednis
President

(All amounts in USD thousands unless otherwise stated)

Consolidated income statement

	Note	Jan-Mar 2010	Jan-Mar 2009
Revenue	2	160 460	146 480
Cost of sales		(154 280)	(140 911)
Gross profit		**6 180**	**5 569**
Distribution costs		(1 092)	(744)
Administrative expenses		(3 483)	(3 701)
Other income		876	986
Other expenses	3	(7)	(4 426)
Operating profit		**2 474**	**(2 316)**
Finance income		214	47
Finance costs		(661)	(1 098)
Finance income/ (costs) – net		**(447)**	**(1 051)**
Profit before income tax		**2 027**	**(3 367)**
Income tax expense	6	(38)	(20)
Profit for the year		**1 989**	**(3 387)**
Attributable to:			
Equity holders of the Company		1 884	(3 386)
Minority interest		105	(1)
		1 989	**(3 387)**
Earnings per share (basic and diluted) for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	7	**0,27**	**(0,49)**

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

Egons Mednis
President

(All amounts in USD thousands unless otherwise stated)

Consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2009	**11 114**	**5 996**	**107**	**74 692**	**91 909**	**3 203**	**95 112**
Currency translation differences	-	-	(166)	1 192	1 026	(21)	1 005
Profit for the period	-	-	-	(25 967)	(25 967)	(646)	(26 613)
Total recognized income and expense for 2009	**-**	**-**	**(166)**	**(24 775)**	**(24 941)**	**(667)**	**(25 608)**
Dividend relating to 2008	-	-	-	-	-	(77)	(77)
Balance at 31 December 2009	**11 114**	**5 996**	**(59)**	**49 917**	**66 968**	**2 459**	**69 427**
Balance at 1 January 2010	**11 114**	**5 996**	**(59)**	**49 917**	**66 968**	**2 459**	**69 427**
Currency translation differences	-	-	55	(2 091)	(2 036)	430	(1 606)
Profit for the period	-	-	-	1 884	1 884	105	1 989
Total recognized income and expense for 2010	**-**	**-**	**55**	**(207)**	**(152)**	**535**	**383**
Dividend relating to 2009	-	-	-	-	-	-	-
Balance at 31 March 2010	**11 114**	**5 996**	**(4)**	**49 710**	**66 816**	**2 994**	**69 810**

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

(All amounts in USD thousands unless otherwise stated)

Consolidated cash flows statement

	Jan-Mar 2010	Jan-Mar 2009
Cash flows from operating activities		
Profit before tax	2 027	(3 367)
Adjustment to reconcile profit before tax to net cash flows		
Depreciation and amortization	150	168
Loss on disposal of property, plant and equipment	2	-
Interest income	(214)	(47)
Interest expenses	661	1 098
Currency translation differences	(1 606)	(2 469)
Movements in allowances	(1 348)	4 080
Working capital adjustments:		
(Increase)/Decrease in trade and other receivables	(2 828)	18 115
(Increase)/Decrease in inventories	(58 626)	45 288
(Decrease)/Increase in trade and other payables	68 525	(19 772)
Income tax paid	(102)	(151)
Net cash used in operating activities	**6 641**	**42 943**
Cash flows from investing activities		
Purchases of fixed assets	(34)	(47)
Purchase of bonds	(612)	-
Increase in cash deposits	-	(600)
Interest received	214	47
Net cash used in investing activities	**(432)**	**(600)**
Cash flows from financing activities		
Net proceeds from borrowings	(1 897)	(37 749)
Interest paid	(661)	(1 098)
Dividends paid to Company's shareholders	-	(3 201)
Net cash generated from financing activities	**(2 558)**	**(42 048)**
Net increase in cash and cash equivalents	**3 651**	**295**
Cash and cash equivalents at beginning of the year	5 567	5 520
Cash and cash equivalents at end of the period	**9 218**	**5 815**

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

(All amounts in USD thousands unless otherwise stated)

Notes to the consolidated financial statements

1. General principles

These interim consolidated financial statements for 3 months ended 31 March 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009.
Accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in the annual consolidated financial statements for the year ended 31 December 2009.

2. Segment information

Geographical segments by location of customers
The Group considers geography as its only reporting segment. The range of products sold by the Group, classes of its customers and distribution channels do not represent separate business segments as they are not subject to different risks and returns. Accordingly, the Group has only one business segment.
At 31 March 2010, it is organized into three main geographical segments by location of customers:
(1) The Baltic area relates to Latvia, Lithuania and Estonia
(2) Central and Eastern Europe area relates to Slovakia, Slovenia, Romania and Croatia
(3) The area of CIS and other countries primarily relate to Russia and Ukraine.
The purchasing of inventory from vendors as well as financing is managed by the Company globally. Therefore, financing items like interest income and expense, as well as cash and borrowings are managed on a global basis at corporate level. This activity is further referred to as central operation.
Therefore, the Group measures geographical segment performance, including corporate performance, based on the segment's operating result. Unallocated remain operating expenses of the central operation.

The segment results for 3 months ended 31 March 2010 are as follows:

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Third-party revenue	13 359	30 778	116 323	-	160 460
Inter-segment revenue	150 737	16	-	(150 753)	-
Revenue	**164 096**	**30 794**	**116 323**	**(150 753)**	**160 460**

The segment results for 3 months ended 31 March 2009 are as follows:

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Third-party revenue	11 103	27 843	107 534	-	146 480
Inter-segment revenue	63 778	241	109	(64 128)	-
Revenue	**74 881**	**28 084**	**107 643**	**(64 128)**	**146 480**

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

The segment assets as at 31 March 2010 are as follows:

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Assets	192 488	26 020	182 678	(166 273)	234 913

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

	The Baltic	**Central and Eastern Europe**	**CIS and other countries**	**Adjustments and eleminations**	**Group**
Assets	138 793	22 697	149 275	(142 168)	168 597

3. Other operating expenses

The other operating expences decrease is mainly related to the fact that in Q1 2009 the Company had to provide the provisions for doubtful receivables in amount of 4.1 million USD.

4. Share capital

The total authorised and issued number of ordinary shares is 6,877 thousand shares (2009: 6,877 thousand shares) with a value of USD 2.236 per share (2009: USD 2.236 per share). All issued shares are fully paid. There are no share options in any of the years presented.

Notes to the consolidated financial statements (continued)

5. Borrowings

	31.03.2010	31.12.2009
Non-current		
Finance lease liabilities	92	98
	92	**98**
Current		
Bank borrowings	40 801	42 186
Other borrowings	6 921	7 989
Finance lease liabilities	107	157
	47 829	**50 332**
Total borrowings	**47 921**	**50 430**

6. Taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average tax rate for 3 months ended 31 March 2010 is 1.9% (the estimated tax rate for 3 months ended 31 March 2009 was negative 0.6%). The difference is mainly due to differences in profitability in the Group's subsidiaries in the respective countries, as well as the Group's policy on recognizing deferred tax assets

7. Earnings per share

The Company has no dilutive potential shares therefore diluted earnings per share are equal to basic earning per share.
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There were no treasury shares.

	Jan-Mar 2010	Jan-Mar 2009
Profit attributable to equity holders of the Company	1 884	(3 386)
Weighted average number of ordinary shares in issue (thousands)	6 877	6 877
Basic earnings per share (USD per share)	0,27	(0,49)

8. Related party transactions

Transactions with related parties:

The transactions with related parties arise mainly from operating lease transactions. Particularly, rental services USD 196 thousand, 2009: USD 145 thousand were provided by AST BALTS that are controlled by some of the shareholders of the Company.
Accordingly the Company has entered into an agreement with related party AST BALTS for rent of warehousing and office space.
Since August 2008 the warehouse premises are used as central warehouse for Baltic region. In 2008 the Company has done additional prepayment for the rent in the amount of USD 287 thousand.

9. Issued guarantees and pledges

AS DnB NORD Banka with mediation of DnB NOR Bank ASA has issued guarantee in the amount of USD 2 million.
All assets of ELKO GRUPA AS have been pledged as security in favour of AS DnB NORD Banka.

10. Contingencies

There are no significant changes in contingent liabilities compared with March 31, 2010.

11. Subsequent events

There are no subsequent events since the last date of the reporting period, which would have a significant effect on the financial position of the Group as at 31 March, 2010.