INet LLC
DUNS Number: 552479917

Annual Report 2008

Enter a World of Excellence in Technology

June 2009

Headquarters

Company Name:	INet LLC
Former Name:	InterNet (2001)
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DUNS Number :	552 479 917
CEO:	Toni Petreski toni@inet.com.mk

Corporate Facts

Legal Structure:	Limited Liability
Ownership:	100% Private
Year of Foundation:	1991
# of Employees:	16
# of Distributions:	10
# of Customers:	40+ Business Partners contracts
2008 Turnover EUR:	*1.942.428*
2008 Net Profit EUR:	*71.191*
Stage:	IBM SW & Red Hat regional market leader

Distribution Agreements

Authorized Distributor & Authorized Warranty Service Provider (for Macedonia and Kosovo)

Sales & Services Partner (for Macedonia, Albania and Kosovo)

Advanced Partner (for Macedonia, Albania and Kosovo)

Red Hat – Certified Training Partner (for Macedonia, Albania and Kosovo)

Premium Partner (for Macedonia, Albania and Kosovo)

Authorized Distributor & Service Partner

ENTER A WORLD OF EXCELLENCE IN TECHNOLOGY AND DISCOVER THE MACEDONIAN MOST FAVOURABLE IT DISTRIBUTOR

The door is open. Beyond the threshold, people are connecting, networking, e-commercing. The lines between our homes and offices are blurring. The boundaries between the nations and cultures are thinning. It's a world of difference out there and INet is making a difference - at the forefront of the excellent technology - by offering an array of solutions and services to numerous resellers and by regionally distributing and marketing IT products from many suppliers.

INet Today

INet has been in the business of Information and Communication Technology (ICT) on the Macedonian market since 1991. The company is highly recognized in value-oriented technology distribution and channel innovation providing complex ICT equipment, peripherals and packaged software products while adding value through technical capabilities.

Having adopted a modern organizational structure, INet has established three self-directed work business teams (departments) acting as profit centers: **INet Marketing & Sales**, **INet Business & Technology Services, INet Center of Excellence**. Through these departments, while seeking new opportunities, INet is growing and developing its activities that correspond to different market segments and serve different needs.

Products and Services Highlights

Stepping inside reveals wide product offering – from network and systems solutions to peripherals and software. Add to that INet's entrance into the open source community and the company has created a strategic, diversified mix of products and services that in 2008 generated EUR 2 million in sales.

Our strategy could never succeed if the relationship between INet and our supplier-partners did not embrace and support it. Partnership agreements with our best partners: IBM, Lenovo, SAP, Red Hat, Trend Micro, Xerox… guarantee the quality, wide portfolio and professionalism of our company.

Competitive Differentiation

Being distinctively better than rivals on one or more Key Success Factors (KSFs) presents a golden opportunity for gaining competitive advantage. INet's distinctive competitively important internal activities (core competencies) reside in cross-department combination of skills and resources: strategic partnership with suppliers, efficient ICT products distribution capability, skills in choosing quality ICT products, attractive mix of built-in performance features, much-better-than average reliability, and very good after-sales and technical support services.

A key factor to our success today and in a future is a strategy that helps INet to run the business more effectively. Production, marketing, human, capital and other resources must always be capable of fulfilling the company's strategy. We choose the following strategic best practices because we wanted to let our customers know that we are committed being a world-class IT company:

- **Quality Enablers**. Project & Portfolio Management– adoption of the TenStep (www.tenstep.com) Project & Portfolio Management methodology;
- **Quality Methodologies**:
  - IT Mark certification – adopted in February 2007;
  - Development and introduction of new IT services based on the ITIL v.3 best practices framework.
  - Total Quality Management Culture - superior customer service standards, 24-hours spare parts availability, 100% "accuracy and guaranteed response times" to fully satisfy customer expectations for prompt service, a full range of technical support activities, team-based work design, involvement and empowerment of employees at all levels by appropriate motivation and rewarding system;
- **Information Technology**. Value Chain Information System implementation - a rollout of SAP Business Suite, a family of open, integrated solutions that manage the entire value chain. We install SAP web based support information system for improved customer, sales and service operations, employee, supplier / partner / collaborative ally, financial performance and to provide the management with the key operating data.
- **Governance Strategy**. Corporate Governance implemented in 2007, based on IFC (World Bank) methodology, to strengthen the shareholders value.

Customer Base

INet serves its business partners and their business likely serves a diverse mix of customers who rely on them to solve their IT challenges.

- IT Channels Companies - Corporate Resellers (Resellers), Small Office/Home office (SOHO)/Consumer Retailers & Dealers
- IT Hardware Companies & PC Assemblers (System Builders)
- IT Software Companies - Independent Software Vendors (ISVs), Local ERP Specialists, Local Accounting Application Providers, Local Horizontal & Vertical Application Providers, Other Small Local ISVs
- IT Services Companies - System Integrators (Solution Providers), Value Added Resellers (VARs), IT Training and Education Specialists
- Telecom Carrier Services Companies - Telecom Carriers, Fixed Telephony Operators, Mobile Network Operators, Internet Service Providers (ISPs), Cable Operators, Wireless Operators;
- Other Telecom Companies - Telecom Distributors, Telecom Support Companies, Telecom Equipment Companies

Market Perspective

According to IDC (2007), the **IT services** opportunities are much bigger than the other IT sectors, because of:

- The steadily growing proportion of IT services in overall ICT demand.
- Offering the IT services containing more value-added (managed services, outsourcing).
- Small groups of high-skilled and innovative professionals could achieve respectful results.
- Barriers to entry the developed countries IT markets are likely to be weaker compared to the other ICT sectors.

Information Technology Infrastructure Library (ITIL) is becoming the next big thing in IT. It is the new industry buzz-word, the new certification, the new conference, and the new idea that the IT world feels it needs. ITIL describes a framework of processes for the management of IT. Since INet works in the IT industry, and plans to work for a medium-to-large organizations in a future, INet has to add one or more ITIL certifications in its resume.

The ITIL implementation journey is long-term one since it is measured in years not in months. ITIL is a new approach to continuous improvement which has its own goal to provide IT services in a more cost-effective manner and to better match those services to the present and the future needs of our business partners.

Indeed, the door is open. Beyond the threshold is a company at the forefront of a growing, vibrant industry – a company that has created a winning formula of strong management, a careful yet innovative diversification strategy and an unwavering commitment to our business partners.

New Services Opportunities

Still more doors are opening before us — opportunities for expansion that include the rocketing demand for wireless mobility, including notebook computers, smart handhelds and POS products; the convergence of consumer and commercial markets; the automation of the home; and thousands of small and medium sized businesses in need of complete IT solutions. And yet, in the world of IT distribution, success is anything but "in one door and out another". Which is why, at INet, our IT solutions go beyond distribution to offer a broad selection of programs and services. Among them – logistics, marketing and financial solutions for our retailing partners; training, marketing and technical assistance for our reseller customers. As a result of this complete approach to our business, 2007 saw us once again outperform our peers and generate profit levels not seen since 2000.

New Markets Opportunities

Even more doors continue to open for us – particularly in Albania and Kosovo where INet is the only distributor for Red Hat products, services and solutions.

Management Team

The management team consists of:

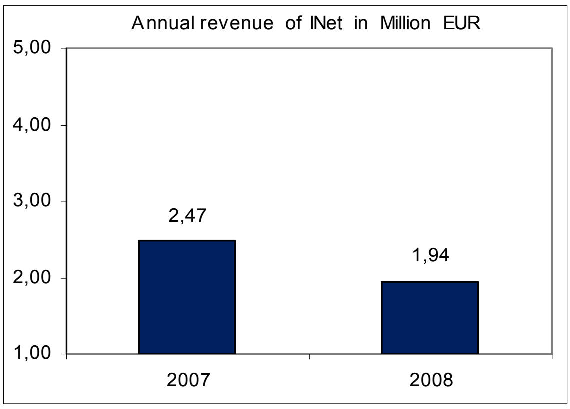
- Toni Petreski, BSc.Eng., Executive MBA, Managing Director (toni@inet.com.mk);
- Slobodan Stojcevski, BSc.Eng., Systems Sales Manager (bobis@inet.com.mk);
- Aspasija Tasevska, BSc.Ecc., Finance & Investments Manager (aspa@inet.com.mk);
- Nadezda Dimitrovska, BSc.Eng., Center of Excellence Executive (nade@inet.com.mk);

Community Groups Membership

- MASIT - Macedonian Association of Information Technology (www.masit.org.mk). MASIT is a voluntary, non-profit association and organizational form of all private companies whose basic activities are manufacturing, trading and services in the area of information technology, and which are registered on the territory of Republic of Macedonia.
- United Nation's Global Compact Initiative (www.unglobalcompact.org). INet Inc. is among the first Macedonian companies that joined Global Compact initiative in January 2005, embracing and supporting the ten universal principles of corporate social responsibility as part of its operations.

Financial Results

We distribute and market hundreds IT products which our clients require and our revenue mix by product category has grown over the past several years.



ENTER A WORLD OF EXCELLENCE IN TECHNOLOGY
AND DISCOVER THE MACEDONIAN MOST FAVOURABLE ICT DISTRIBUTOR

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Introduction

INet has been in the business of Information and Communication Technology (ICT) on the Macedonian market since 1991. The company is highly recognized in value-oriented technology distribution and channel innovation providing complex ICT equipment, peripherals and packaged software products while adding value through technical capabilities. This focused strategy has permitted INet to increase both the revenues and profits over the years.

INet provides a vital link in the IT supply chain by generating demand and developing markets for our technology partners. While we remain focused on continuing to build our IT distribution business, we also are developing an increasing presence in adjacent technology categories, such as automatic identification and data capture ("AIDC"); point-of-sale ("POS"); **managed, professional and warranty maintenance services**; and consumer electronics ("CE") to broaden our product lines and market presence. We create value in the market by extending the reach of our technology partners, capturing market share for resellers and suppliers, creating innovative solutions comprised of both technology products and services, offering credit, and providing efficient fulfilment of IT products and services. With a broad range of products and an array of services, we create operating efficiencies for our partners around the region.

Stepping inside reveals wide product offering – from network and systems solutions to peripherals and software. Add to that INet's entrance into the open source community and the company has created a strategic, diversified mix of products and services that in 2009 generated more than EUR 2 million in sales.

Our strategy could never succeed if the relationship between INet and our supplier-partners did not embrace and support it. Partnership agreements with our best partners: IBM, Lenovo, SAP, Red Hat, Trend Micro, Xerox… guarantee the quality, wide portfolio and professionalism of our company.

Having adopted a modern organizational structure, INet has established three self-directed work business teams (departments) acting as profit centers: **INet Sales** (Products & Services Distribution) Department; **INet Services** (IT & Business Services) Department; **INet Center of Excellence** (Consulting & Education) Department. Through these departments, while seeking new opportunities, INet is growing and developing its activities that correspond to different market segments and serve different needs.

Industry

The worldwide information technology products and services distribution industry generally consists of two types of business: traditional distribution and fee-based supply chain services.

Within the traditional distribution model, the distributor buys, holds title to, and sells products and/or services to resellers who, in turn, typically sell directly to end-users, or other resellers. While some vendors have elected to sell directly to resellers or end-users for particular customer and product segments, we believe that vendors continue to embrace traditional distributors that have a market presence and proven ability to manage multiple products and resellers, provide access to fragmented markets, and deliver products to market in an efficient manner. Resellers in the traditional distribution model are able to build efficiencies and reduce costs by depending on distributors for a number of services, including product availability, marketing, credit, technical support, and inventory management, which includes direct shipment to end-users and, in some cases, provides end-users with distributors' inventory availability. During periods of constrained credit, distributors with strong balance sheets and ample credit capacity are especially valued by suppliers. Those distributors that work with resellers to offer enhanced value-added solutions and services customized to the needs of their specific end-user customer base are better able to succeed in this environment.

Company Strengths

Despite the global economic downturn that is dampening demand in each of the company's regions, we believe that the current technology industry generally favors large, financially-sound distributors that have broad product portfolios, economies of scale, strong business partner relationships and wider geographic reach. Two-tier distribution continues to be an integral element of the go-to-market strategy for IT suppliers bringing products to market, particularly in an environment in which suppliers are compelled to streamline processes and eliminate costs. We deliver value to our partners by making reseller customers more valuable to their end-user customers and making suppliers more profitable. As such, our strengths position us well to meet the needs of our reseller and vendor partners in the current environment and create a firm foundation for future growth as the economy recovers. Our solid financial position helps us to better manage the challenges presented by economic instability and volatility. We have identified several catalysts for growth in our IT distribution business and in new markets. We believe that the following strengths enable us to further enhance our leadership position in the IT distribution industry and in adjacent technology product categories.

Strong Working Capital Management and a Solid Financial Position

We have consistently demonstrated strong working capital management regardless of economic conditions. In particular, we have maintained a strong focus on optimizing our investment in inventory, while preserving customer fill rates and service levels. We have maintained our inventory days on hand at a stable range for the last seven years as a result of our focused and sustainable initiatives towards minimizing excess and obsolete goods while improving our purchasing processes and product flow. Furthermore, we continue to manage our accounts receivable through timely collections, credit limit setting, customer terms and process efficiencies to minimize our working capital requirements. Our conservative stance on capital management, as well as our diversified portfolio of capital resources, improves our position in the tighter credit markets. Our financial strength enables us to provide valuable credit to our customers, employing a disciplined approach to account management and credit worthiness. We also believe that we are well-positioned to support our growth initiatives in our IT distribution business and invest in incremental profitable growth opportunities. Finally, we believe our solid financial position provides us with a competitive advantage as a reliable, long-term business partner for our supplier and reseller partners.

Continuous Focus on Optimizing Productivity

We continue to seek ways to improve our processes and streamline our business model, while refining our cost structure to respond to changes in market demand. We continue to incorporate cost-savings measures in all business processes. We leverage our IT systems and warehouse locations to support custom shipment requirements, and by optimizing delivery methodologies, we deliver faster, while reducing shipping costs. We remain focused on ensuring that our web catalogue includes the products most desired by our customers, optimizing inventory management, realizing higher margin opportunities, and developing merchandising and pricing strategies that produce enhanced business results. In order to fully leverage our regional operation, we make continuous investments in our IT infrastructure and streamline and standardize business processes to drive efficiency and provide best-in-class quality in our processes and systems throughout the region.

Business Diversification

Our ability to execute on new initiatives and adapt to new business models provides a competitive advantage by allowing us to overcome the risks, volatility and demand fluctuations in a single market, vendor or product segment.

Geographic Diversification

Our presence in a regional markets provides us with a more balanced portfolio with which to mitigate risk. In our more mature markets we are leveraging our solid foundation to spur additional growth by bringing new products and services to market. Our broad regional footprint enables us to serve our resellers and suppliers with our sales and distribution network while mitigating the risks inherent in individual markets. Our regional market coverage provides a competitive advantage with suppliers looking for regional market penetration. The scale and flexibility of our operations enables INet to provide the infrastructure behind the technology value chain in all its new and traditional forms. We are resolute in our efforts to continually optimize our regional operations.We serve the markets where we do not have an in-country presence through our general telesales operations. We sell our products and services to resellers in four countries.

As of January 3, 2009, we offer many suppliers access to a customer base of more than 50 resellers of various categories including VARs, corporate resellers, direct marketers, retailers, Internet-based resellers, and government and education resellers.

Competitive Differentiation through Superior Execution

We are committed to enhancing customer loyalty and share of business by continually strengthening our value proposition. Through our understanding and fulfilment of the needs of our reseller and supplier partners, we provide our customers with the supply chain tools they require to increase the efficiency of their operations, enabling them to minimize inventory levels, improve customer delivery, and enhance profitability. We provide

business information to our customers, suppliers, and end-users by leveraging our information systems. We give resellers, and in some cases their customers, real-time access to our product inventory data. By providing improved visibility to all participants in the supply chain, we allow inventory levels throughout the channel to more closely reflect end-user demand. This information flow enables our superior execution and our ability to provide favourable order fill rates to our customers around the region while optimizing our investment in working capital. Through our data analytics capabilities we are able to leverage our extensive database to provide valuable data for our vendors.
Our commitment to a customer-centric focus has been widely recognized throughout the IT industry, as evidenced by a number of awards received by INet over the past year.
INet activities and processes are performed according to the following strategic best practices:

- **Quality Enablers**. Project & Portfolio Management– adoption of the TenStep (www.tenstep.com) Project & Portfolio Management methodology;
- **Quality Methodologies**:
    - Total Quality Management Culture - superior customer service standards, 24-hours spare parts availability, 100% “accuracy and guaranteed response times” to fully satisfy customer expectations for prompt service, a full range of technical support activities, team-based work design, involvement and empowerment of employees at all levels by appropriate motivation and rewarding system;
    - **IT Mark certification – INet is CMMI quality certified** since January 2007, and re-certified in December 2009.
    - ISO 20000/27001 implementation – INet develops and introduces new IT services based on the ITIL v.3 best practices framework.
- **Information Technology**. Value Chain Information System implementation - a rollout of SAP Business Suite and Microsoft Dynamics CRM, a family of open, integrated solutions that manage the entire value chain. During the 2009 we installed SAP & MS Dynamics CRM web based support information system for improved customer, sales and service operations, employee, supplier/partner/collaborative ally, financial performance and to provide the management with the key operating data.
- **Governance Strategy**. Corporate Governance implementation in 2007 based on IFC (World Bank) methodology is strengthening the shareholders value.
- **Corporate Social Responsibility**. INet has joined the United Nation’s Global Compact initiative, embracing and supporting the ten universal principles of corporate social responsibility as part of its operations, with focus on “INet Employee’s Benefits”.

We choose all these strategies because we wanted to let our customers know that we are committed being a world-class IT company.

Customers

Our focus on diversification extends to the wide-ranging customers we serve. Our reseller customers are distinguished by the end-user market they serve, such as large corporate accounts, mid-market, SMBs, or home users, and by the level of value they add to the basic products they sell.
They include VARs, corporate resellers, retailers, systems integrators, direct marketers, Internet-based resellers, independent dealers, reseller purchasing associations, and PC assemblers. Many of our reseller customers are heavily dependent on distribution partners with the necessary systems, capital, inventory availability, and distribution facilities in place to provide fulfilment and other services.
The small-to-medium sized business (“SMB”) customer segment is generally one of the largest segments of the IT market in terms of revenue, and typically provides higher gross margins for distributors as it is more challenging for suppliers to penetrate. Our programs and services are geared to add value to value-added resellers (“VARs”) and solutions providers that serve as technology sources for the SMB market.
We serve VARs with a complete “go-to-market” approach to a VAR’s business, including logistics, sales, marketing, technical, financial and services support, enablement training, and solutions development, as well as expand their end-user reach through end-user demand generation marketing programs.
Our diversification strategy - which opens new markets in AIDC/POS, CE home automation and entertainment, and mobility products — offers new customer segments for our traditional IT products. We try to limit exposure to the impact of business fluctuations by maintaining a balance in the customer segments we serve. We periodically rebalance our customer mix in keeping with profitability goals.
In most cases we conduct business under general terms and conditions, without purchase requirements. We also have resale contracts with our reseller customers that are terminable at will after a reasonable notice period and have no minimum purchase requirements.

The service offerings we provide to our customers are discussed further below under "Services." Our business is not substantially dependent on any of these distribution or supply chain services contracts. No single customer accounts for more than 10% of our total revenue.
INet serves its business partners and their business likely serves a diverse mix of customers who rely on them to solve their IT challenges.

- IT Channels Companies - Corporate Resellers (Resellers), Small Office/Home office (SOHO)/Consumer Retailers, SOHO/Consumer Dealers
- IT Hardware Companies & PC Assemblers (System Builders)
- IT Software Companies - Independent Software Vendors (ISVs), Local ERP Specialists, Local Accounting Application Providers, Local Horizontal Application Providers, Local Vertical Application Providers, Other Small Local ISVs
- IT Services Companies - System Integrators (Solution Providers), Value Added Resellers (VARs), IT Training and Education Specialists
- Telecom Carrier Services Companies - Telecom Carriers, Fixed Telephony Operators, Mobile Network Operators, Internet Service Providers (ISPs), Cable Operators, Wireless Operators;
- Other Telecom Companies - Telecom Distributors, Telecom Support Companies, Telecom Equipment Companies

In addition, we present table for customers, orders and average orders per year:

	2005	2006	2007	2008
Number of customers per year	493	435	432	381
Number of orders per year	2168	1931	1719	1.846
Average value of order per year in EUR	828	824	1.356	1.051

Sales and Marketing

We employ sales representatives who assist our clients with product and solution specifications, system configuration, new product/service introductions, pricing, and availability.
Our product management and marketing groups also promote our sales growth, and create demand for our suppliers' products and services, enable the launch of new products, and facilitate customer contact.
Our product portfolio is enlarged and improved with the services that the company is offering. The product portfolio combined with IT professional services on the premier level is on of the important steps that we are planning to promote and develop. The IT products and services distribution industry is characterized by intense competition but the business plan that has been developed is that the company should establish B2B contact and collaboration in order to overrun the regional market and promote itself.
We believe that customer information systems and product ordering and delivery systems, including Internet-based systems, are becoming increasingly important in the distribution of technology products and services. Therefore the company promotes the web site with its features and capabilities in order to reduce time and costs that the employees are spending and in order the sale to become more effective. Customers can access the company's' IT system through Internet on the web site www.inet.com.mk, and also there is possibility for our partners in Macedonia and abroad to access our partner web site partner.inet.com.mk.
Our marketing programs are tailored to meet specific supplier and reseller customer needs. These needs are met through a wide offering of services by our marketing department including advertising, direct mail campaigns, market research, on-line marketing, retail programs, sales promotions, training, solutions marketing, and assistance with trade shows and other events. We also create and utilize specialized channel marketing communities to deliver focused resources and business building support to solution providers.

Products

Based on publicly available information, we believe we offer a breadth of products in the IT industry. Our broad base of products allows us to better serve our customers, as well as mitigate risk. Our broad web catalog of product offerings, makes us less vulnerable to market dynamics or actions by any one vendor or segment, or volatility in market demand in specific product lines. We continuously focus on refreshing our business with new, high-potential products and services. We are focused on moving deeper into new adjacent product categories and regionalizing our efforts. We remain focused on expansion in the mobile convergence market and on building security solutions. Our diversification in product and customer segments extends market opportunities for our vendors and has been a factor in our receiving exclusive authorization from certain vendors that are rationalizing their channel strategy in response to the economy. We enable reseller partners to sell and support complex infrastructure solutions and effectively compete against large systems integrators. Product line expansion in this business segment has been focused on products and solutions that bring higher productivity to our partners, such as affordable virtualization solutions and storage offerings. The economic downturn has been especially pronounced in the consumer segment where we continue to explore ways to profitably grow. Overall, we believe that our diversified product portfolio will provide a solid platform for growth while softening the impact of lower demand in specific categories.

We distribute and market hundreds of technology products from the industry's premier computer hardware suppliers, networking equipment suppliers, software publishers, and other suppliers of computer peripherals, CE, AIDC/POS and mobility hardware. Product assortments vary by market, and the suppliers' relative contribution to our sales also varies from country to country. On a worldwide basis, our revenue mix by product category has remained relatively stable over the past several years, although it may fluctuate between and within different operating regions. Over the past several years, our product category revenues on a consolidated basis have generally been within the following ranges:

%	2005	2006	2007	2008
PC Segment	33,27	48,72	45,04	49,94
Servers & Storage	40,65	32,68	47,51	25,12
Packaged Software	0,00	0,00	1,92	12,48
Printers &MFPs	0,00	0,00	0,00	3,46
Services	21,11	18,60	5,53	9,00

PC Segment

We offer a variety of products within the Peripherals and Others category that fall within several sub-categories:

- desktops; portable personal computers; and personal digital assistants ("PDAs");
- traditional IT peripherals such as displays, projectors, monitors, panels;
- digital signage products such as large format LCD and plasma displays, enclosures, mounts, media players,
- CE products such as cell phones, digital cameras, digital video disc players, game consoles, televisions, audio, media management and home control;
- AIDC/POS products such as barcode/card printers, AIDC scanners, AIDC software, wireless infrastructure products;
- component products such as processors, motherboards, hard drives, and memory; and
- supplies and accessories such as carrying cases, and anti-glare screens.

Servers & Storage.

We define our systems category as self-standing computer systems capable of functioning independently. We offer a variety of systems, such as:

- rack, tower and blade servers;
- storages;
- traditional IT peripherals such as mass storage, and tape.

Packaged Software.

We define our software category as a broad variety of applications containing computer instructions or data that can be stored electronically. We offer a variety of software products, such as:

- business application software,
- operating system software,
- entertainment software,
- middleware,
- developer software tools,
- security software (firewalls, intrusion detection, and encryption) and
- storage software.

Printers & MFPs.

- Printers, scanners, MFPs
- supplies and accessories such as ink and toner supplies, paper.

Services.

- services provided by third parties and resold by INet; and
- content software, content creation, content hosting, and installation services;

Services

IT Services is one of the fastest-growing and highest gross margin segments of IT spending. INet is intent on building its service offerings which will enhance our gross margin profile with no inventory risk while allowing us to bring additional value to our customers and become more connected to our resellers' end-user customers. INet Services continues to build its industry-leading managed and professional services delivery engine.

Managed services utilize application and technology tools to more effectively and efficiently manage an end-user's IT environment while affording the solution provider significant remote capabilities, service efficiencies and corresponding improvement in profitability. These services tend to be infrastructure-intensive and would burden service providers with investments in data centers and large server installations were they to deploy the services independently.

In addition, we also surround products and programs with our own services to resellers, such as **technical support, financing and training**. Although services represent one of the key initiatives of our long-term strategy, they have represented less than 10% of our revenues in the past and may not exceed that level in the near term.

We also receive compensation for various services, including technical support, financial services, sales and marketing services, eCommerce services, licensing solutions and managed services.

Although services represent one of the initiatives of our long-term strategy, they have represented less than 10% of our annual revenues in the past and may not exceed that level in the near term.

Suppliers

Our suppliers include leading computer hardware suppliers, networking equipment suppliers, software publishers, CE manufacturers, and AIDC/POS suppliers, such as IBM; Lenovo; Trend Micro; and Xerox.

Products purchased from IBM generated approximately 32,09%, and 47,57% of our net sales in fiscal years 2008 and 2007, respectively.

Products purchased from Lenovo generated approximately 43,39%, and 37,20% of our net sales in fiscal years 2008 and 2007, respectively.

Supplier	2007 %	2008 %
IBM	47,57	32,09
Lenovo	37,20	43,39
Others	15,22	24,53

There were no other vendors that represented 10% or more of our net sales in any of the last three years.

Our suppliers generally warrant the products we distribute and allow returns of defective products, including those returned to us by our customers. We generally do not independently warrant the products we distribute; however, local laws might impose warranty obligations upon distributors (such as in the case of supplier liquidation). In certain markets we administer extended warranty programs, supported by a third party, on supplier products.We do warrant services, products that we build-to-order from components purchased from other sources, and our own branded products. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. Historically, warranty expense has not been material.

We have written distribution agreements with many of our suppliers; however, these agreements usually provide for nonexclusive distribution rights and often include territorial restrictions that limit the countries in which we can distribute the products. The agreements also are generally short term, subject to periodic renewal, and often contain provisions permitting termination by either party without cause upon relatively short notice. Certain distribution agreements either require (at our option) or allow for the repurchase of inventory upon termination of the agreement. Even in cases where suppliers are not obligated to accept inventory returns upon termination certain suppliers will elect to repurchase the inventory while other suppliers will either assist with liquidation or resale of the inventory.

INet has signed authorized agreements with the following suppliers:

IBM Business Partner

1998 - IBM xServers Authorized Distributor
(for Macedonia and Kosovo)
1998 – IBM xServers Authorized Warranty Service Provider
(for Macedonia and Kosovo)
2008 - IBM SW Distributor for Workstation Software
(for Macedonia, Kosovo, Albania & Montenegro)

1998 - Lenovo (IBM PCD) Authorized Distributor
(for Macedonia and Kosovo)
1998 - Lenovo Authorized Warranty Service Provider
(for Macedonia and Kosovo)

2006 – SAP Services Partner
(for Macedonia, Albania and Kosovo)

2006 – RedHat Advanced Partner
(for Macedonia, Albania and Kosovo)

2006 - RedHat Certified Training Partner
(for Macedonia, Albania and Kosovo)

2006 - Premium Partner
(for Macedonia, Albania and Kosovo)

2007 - Authorized Distributor (for Macedonia)
2008 - Authorized Service Partner (for Macedonia)

Competition

We operate in a highly competitive environment on our domestic market and internationally.
In the current economic environment, competitive pressure in the form of aggressive pricing is more acute. In addition to price, other competitive factors include:

- ability to tailor specific solutions to customer needs;
- availability of technical and product information;
- credit terms and availability;
- effectiveness of sales and marketing programs;
- price;
- products and services availability;
- quality and breadth of product lines and services;
- speed and accuracy of delivery; and
- web- or call center-based sales.

We believe we compete favourably with respect to each of these factors.
We compete against broad-based IT distributors such as M-San and ComTrade. There are a number of specialized competitors who focus upon one market or product or a particular sector with whom we compete. Examples include Login Systems, EkoNet, and Rema in components and enterprise products; Tehnomarket, AMC, and Niko Computers in consumer electronics; and Spica and XYZ in AIDC/POS products.
We believe that suppliers and resellers pursuing global strategies continue to seek distributors with global sales and support capabilities. The evolving direct-sales relationships between manufacturers, resellers, and end-users continue to introduce change into our competitive landscape. We compete, in some cases, with hardware suppliers and software publishers that sell directly to reseller customers and end-users. However, we may become a business partner to these companies by providing supply chain services optimized for the IT market. Additionally, as consolidation occurs among certain reseller segments and customers gain market share and build capabilities similar to ours, certain resellers, such as direct marketers, may become our competitors. As some

manufacturer and reseller customers move their back-room operations to distribution partners, outsourcing and value-added services may be areas of opportunity. Many of our suppliers and reseller customers are looking to outsourcing partners to perform back-room operations. There has been an accelerated movement among transportation and logistics companies to provide many of these fulfilment and e-commerce supply chain services. Within this arena, we face competition from major transportation and logistics suppliers such as DHL, FedEx, and UPS Supply Chain Solutions.

We are constantly seeking to expand our business into areas closely related to our IT products and services distribution business. As we enter new business areas, including value-added services, we may encounter increased competition from current competitors and/or from new competitors, some of which may be our current customers.

Seasonality

We experience some seasonal fluctuation in demand in our business. For instance, we typically see lower demand in the summer months. We also normally see an increase in demand in the September to December period, driven primarily by pre-holiday impacts on stocking levels in the retail channel and on volume of business.

Inventory Management

We seek to maintain sufficient quantities of product inventories to achieve optimum order fill rates. Our business, like that of other distributors, is subject to the risk that the value of our inventory will be affected adversely by suppliers' price reductions or by technological changes affecting the usefulness or desirability of the products comprising the inventory. It is the policy of many suppliers of technology products to offer distributors limited protection from the loss in value of inventory due to technological change or a supplier's price reductions. When protection is offered, the distributor may be restricted to a designated period of time in which products may be returned for credit or exchanged for other products or during which price protection credits may be claimed. We take various actions, including monitoring our inventory levels and controlling the timing of purchases, to maximize our protection under supplier programs and reduce our inventory risk. However, no assurance can be given that current protective terms and conditions will continue or that they will adequately protect us against declines in inventory value, or that they will not be revised in such a manner as to adversely impact our ability to obtain price protection. In addition, suppliers may become insolvent and unable to fulfill their protection obligations to us. We are subject to the risk that our inventory values may decline and protective terms under supplier agreements may not adequately cover the decline in values. In addition, we distribute a small amount of private label products for which price protection is not customarily contractually available, for which we do not normally enjoy return rights, and for which we bear certain increased risks. We manage these risks through pricing and continual monitoring of existing inventory levels relative to customer demand. On an ongoing basis, we reserve for excess and obsolete inventories and these reserves are appropriately utilized for liquidation of such inventories, reflecting our forecasts of future demand and market conditions.

Inventory levels may vary from period to period, due, in part, to differences in actual demand from that forecasted when placing orders, the addition of new suppliers or new lines with current suppliers, expansion into new product areas, such as AIDC/POS and CE, and strategic purchases of inventory. In addition, payment terms with inventory suppliers may vary from time to time, and could result in fewer inventories being financed by suppliers and a greater amount of inventory being financed by our capital. Our payment patterns can be influenced by incentives, such as early pay discounts offered by suppliers.

Trademarks and Service Marks

We own or are the licensee of various trademarks and service marks, including, among others, "INet" and the INet logo. Certain of these marks are registered, or are in the process of being registered, in Macedonia and various other countries. Even though our marks may not be registered in every country where we conduct business, in many cases we can acquire rights in those marks because of our continued use of them.

Employees

As of January 3, 2009, we employed 16 associates (as measured on a full-time equivalent basis). Our success depends on the talent and dedication of our associates, and we strive to attract, hire, develop, and retain outstanding associates. We believe we reap significant benefits from having a strong and seasoned management team with many years of experience in the IT and related industries.

We have a process for continuously measuring the status of associate success and responding to associate priorities. We believe that our relationships with our associates are generally good.

Available Information
We file periodic reports, and and information statements and other information.
Financial and other information can also be accessed through our website at www.inet.com.mk. There, we make available, free of charge, copies of our annual report, quarterly reports, current reports, and amendments to those reports filed or furnished as soon as reasonably practicable after filing such material electronically or otherwise.

Executive Officers of the Company
The following list of executive officers of INet is as of January 1, 2009:
- Toni Petreski, BSc.Eng., Managing Director (toni@inet.com.mk);
- Slobodan Stojcevski, BSc.Eng., Systems Sales Manager (bobis@inet.com.mk);
- Nadezda Dimitrovska, BSc.Eng., Center of Excellence Executive (nade@inet.com.mk);
- Aspasija Tasevska, BSc.Econ., Financial Manager (aspa@inet.com.mk);

Board of Shareholders
The Board of Shareholders of INet consists of 3 members: Mr. Toni Petreski, an inside member of the Board, and Mr. Aleksandar Naumovski BSc.Eng (alex@inet.com.mk), and Oliver Kosturanov, MBA (oliver@seaf.com.mk), an outside member of the Board.

Community Groups Membership
- MASIT - Macedonian Association of Information Technology (www.masit.org.mk). MASIT is a voluntary, non-profit association and organizational form of all private companies, whose basic activities are manufacturing, trading and services in the area of information technology, and which are registered on the territory of Republic of Macedonia.
- United Nation's Global Compact Initiative (www.unglobalcompact.org). INet LLC is among the first Macedonian companies that joined Global Compact initiative in January 2005, embracing and supporting the ten universal principles of corporate social responsibility as part of its operations.

New Services Opportunities
Still more doors are opening before us — opportunities for expansion that include the rocketing demand for wireless mobility, including notebook computers, smart handhelds and POS products; the convergence of consumer and commercial markets; the automation of the home; and thousands of small and medium sized businesses in need of complete IT solutions. And yet, in the world of IT distribution, success is anything but "in one door and out another". Which is why, at INet, our IT solutions go beyond distribution to offer a broad selection of programs and services. Among them – logistics, marketing and financial solutions for our retailing partners; training, marketing and technical assistance for our reseller customers.
According to IDC (2006a), the IT services opportunities are much bigger than the other IT sectors, because of:
- The steadily growing proportion of IT services in overall ICT demand.
- Offering the IT services containing more value-added (managed services, outsourcing).
- Small groups of high-skilled and innovative professionals could achieve respectful results.
- Barriers to entry the developed countries IT markets are likely to be weaker compared to the other ICT sectors.
- Small national market suitable for pilot solutions/products development to be exported later on.
- Small national market and relatively small ICT community (stakeholders) makes it easier to reach the consensus on the issues of ICT industry strategy and development, and concrete projects.
- IT skills shortage and growing demand for outsourcing services in Western economies (off-shore, near-shore).
- Public private partnership arrangements proliferation.

Information Technology Infrastructure Library (ITIL) is becoming the next big thing in IT. It is the new industry buzz-word, the new certification, the new conference, and the new idea that the IT world feels it needs. ITIL describes a framework of processes for the management of IT. Because it is a framework, ITIL does not describe in great detail how any particular process should be implemented. Since INet works in the IT industry, and plans to work for medium-to-large organizations in a future, INet has to add one or more ITIL certifications in its resume.
The ITIL implementation journey is long-term one since it is measured in years not in months. ITIL is a new approach to continuous improvement which has its own goal to provide IT services in a more cost-effective manner and to better match those services to the present and the future needs of the business.

New Markets Opportunities

Even more doors continue to open for us – particularly in Albania and Kosovo where INet is the only distributor for Red Hat products, services and solutions.

Indeed, **the door is open**. Beyond the threshold is a company at the forefront of a growing, vibrant industry – a company that has created a **winning formula** of strong management, a careful yet innovative diversification strategy and an unwavering **commitment to our business partners**.

Vision, Mission, Values

Vision
INet will be universally regarded as the best way to deliver information technology and appropriate value added services in Macedonia and in the Balkan region.

Mission
To help our business partners grow and be more profitable, while maximizing value for our shareowners, by:
- Broadening the reach of our business partners, connecting them with new markets, technologies and solutions;
- Earning the respect and loyalty of our business partners through superior value and service;
- Creating innovative ideas through bright, energetic, customer-focused and talented people.

Values
We commit to these values to guide our decisions and our behaviours:
- **Teamwork**
  We promote and support a diverse, yet unified, team. We work together to meet our common goals.
- **Respect**
  We honour the rights and beliefs of our fellow associates, our customers, our shareowners, and our community. We treat others with the highest degree of dignity, equality and trust.
- **Accountability**
  We accept our individual and team responsibilities and we meet our commitments. We take responsibility for our performance in all of our decisions and actions.
- **Integrity**
  We employ the highest ethical standards, demonstrating honesty and fairness in every action that we take.
- **Innovation**
  We are creative in delivering value to our fellow associates, customers, shareowners, and community. We anticipate change and capitalize on the many opportunities that arise.

Guiding Principle – Excellence in Technology
INet will achieve results with the highest integrity, with a focus on enhancing the success of our partners, vendors and associates.
Current core competencies of INet are:
- **Excellence.** Distribution of ICT products of superior level of performance for value, leadership by advancing new technologies, innovative service techniques, enhanced services for total quality satisfaction, inspired management, and application of best practices.
- **Customer Focus.** Provision of quality support services to our customers by treating them as partners, listening and understanding their needs, responding fairly, and living up to our commitments;
- **People.** Commitment to innovation, performance-based compensation, benefits, training and personal growth based on equal career opportunity and merit; People are our most important asset.

Our Strategic Objectives
The strategic objective is to exercise ICT leadership and to overtake key competitors on higher product quality, broader and more attractive customer support line, better Internet sales capabilities, superior on-time delivery, stronger brand name, recognition as a leader in technology and service innovation, superior customer service, and 99% total customer satisfaction. Also, to become a company with deep-talent-rich team, and to provide all our employees with challenging and rewarding work, satisfying working conditions, and opportunities for personal development, advancement, and competitive compensation.
The strategic intent of INet is to become a recognized regional ICT customer support services leader by creating a whole new array of services.

Our Strategic Focus
Our strategic focus which support and enhance our position in the IT sector is to drive profitable growth by growing and optimizing our core business and expanding at the market.

Achieve Sustainable Profitable Growth

- *We continually improve our operations* - by enhancing our capabilities while reducing costs to provide an efficient flow of products and services through the IT value chain. By optimizing delivery methodologies, we deliver faster, while reducing costs. We are also enhancing our revenues through the development of tools and capabilities to identify new growth opportunities. By streamlining our catalogue to include the products most desired by our customers, we optimize inventory management, focus on higher margin opportunities, and develop merchandising and pricing strategies that produce enhanced business results.
- *We benefit from a growth perspective by targeting market segments that provide growth opportunities for customers and vendors* - We look for opportunities to invest in high-growth and profitable geographic markets. We will continually evaluate developing markets for expansion where IT demand supports a local presence. Therefore, INet developed its business in Kosovo (Serbia and Montenegro), and filled the absence in the IT sector in that region.
- *We provide supply chain solutions* - tailored to each region to clients who are focused on increasing supply chain efficiencies, lowering overhead costs, and maximizing profits. We help our supply chain clients deliver products to key customers and new markets on a fee-for-service basis.

Optimal Productivity

- Our focus on driving efficiencies and achieving the best-in-class financial metrics has enabled us to improve our operating margins - We employ a disciplined and focused approach when we review our operations and develop initiatives designed to streamline business processes and further increase our operating efficiency.
- *By maximizing economies of scale and leveraging our best-in-class logistics services* - we are prepared to address the changing needs of resellers and suppliers, providing a broad array of distribution and supply chain management solutions, services and programs.
- *We are continuously looking for ways to take cost out of our business* - INet is taking significant actions to improve the financial position. We are always focused on finding new ways to more cost-effectively respond to market demands.

Serving Our Communities

Our Purpose

INet's Corporate Giving Program invests volunteer, cash and in-kind support in communities where our associates live and work. These investments are directed to innovative programs to promote education and economic self-sufficiency, to ensure quality of life and improve the health and well-being of citizens.
This program, guided by our corporate values of teamwork, respect, accountability, integrity and innovation, focuses on three areas:

Education

Support is targeted at scholarships, computer science, distribution management and other programs that promote economic self-sufficiency. General operating support will not be considered.

Health and Human Services

Support is targeted at community-based social and health service agencies for specific programs. A significant portion of the support granted in this area will be channeled through INet's investment. General operating support will not be considered.

Arts and Culture

Program support is targeted at performing arts centres and cultural organizations. General operating support and requests to underwrite performances and exhibitions will not be considered.

Community Relations

Global Compact – Communication on Progress

INet is among the first Macedonian companies that joined Global Compact initiative in January 2005, embracing and supporting the ten universal principles of corporate social responsibility as part of its operations. As Global Compact participant INet has shown excellence in promoting and integrating the ten principles into overall company strategy:

- respect and protection of human rights;

- respect of labour rights and fighting against workers abuse, especially against the abuse of children;
- environment protection and development of "friendly" technologies;
- fighting against any kind of corruption, including bribe and extortion;

International human right is not just responsibility of governments but every individual and every organ of the society has obligation to respect and promote the human rights. INet has taken particular care to ensure that its activities and practices do not contravene international human rights low. All contracts with partners and suppliers are and are going to be in compliance with human rights. Partnership activities based on equity, transparency and mutual benefit are and will be subject of future relationship. INet has implemented policies addressing corporate social responsibility, health and safety non-discrimination working environment. INet aligns its behaviour with the expectation of their stakeholders.

INet believes that dynamic which results from freedom of association can sat in motion 'decent work – cycle' through constructive dialogue that harnesses energy to focus on solutions and that results in benefits to the enterprise, its stakeholders and society at a large. Forced labour deprives societies of the opportunity to develop human resources for the modern labour market and to develop skills and educate children for the labour markets of tomorrow. Discrimination affects the individuals concerned and negatively influences the greater contribution that they might make to society. Having considered all this INet will continue to improve its policies, educate its employees and foster open dialog with its stakeholders concerning labour rights.

INet, extends its commitment to corporate citizenship and social responsibility throughout the company. Whether we are conserving energy and natural resources, ensuring a safe and healthful workplace, or working with our suppliers to develop sustainable global markets, we apply our extensive innovation resources and expertise to solve some of the most pressing global issues.

The nine principles need to be strengthened by a strong stance against corruption. Corruption weakens economic growth and social development, the consolidation of democracy and people's morality. INet is committed to conducting business in a fair, honest and sound manner to help assure that the long term interests of its shareholders are being served. As part of this commitment, Code of Conduct sets out the policies and procedures for the fair and honest business practices and behaviour that INet expects from its staff.

Corporate Social Responsibility (CSR)

CSR is an integral part of the operational strategy of INet. Starting 2006 with initial activities, INet continued with CSR practical activities in 2008, too. As a result of those activities:

- May, 2009 for the second time INet gained plaque/acknowledgement for positive Corporate Social Responsibility practices in 2008. INet was a part of the elected short list of nominates in category of Small and Medium Enterprises introducing itself with the project of supporting the fight against youth addictions**:** *'Say YES to life, Say NO to drugs'*.
- Drug is serious social problem that concerns the entire community. Setting the aim of raising the awarenes of young generation through education and prevention, INet decided to support this campaign and help the process of education. In 2008 we took part in number of initiatives that gave as motivation to continue and act in all areas of social responsibility.
- May, 2009 for the second time INet was rewarded with Certificate of Recognition for its contribution to the philanthropy in Macedonia. INet got in the short list of nominated finalists and gained the certificate for Corporate Philanthropy Award in the subcategory Corporate Philanthropy for small and medium enterprise 2008. The ceremony of Philanthropy Awards 2008 was conferred by the Center for Institutional Development – CIRa.

INet has fully justified its socilal liability and responsibility toward the community. The Certificate of Recognition is reassurance that the implemented activities of INet create better standard of leaving.

Corporate Governance

Corporate Governance is an integral part of the corporate strategy of INet. The company started a project for setting a basis for improved corporate governance in 2006, and continued with activities over next years.

The value of Integrity of INet states: "We employ the highest ethical standards, demonstrating honesty and fairness in every action we take". Just as important is our value of Accountability, that: "we take responsibility for our performance in all of our decisions and actions". The company reaffirmed the commitment to the highest standards of legal and ethical conduct.

- December 2008, INet was awarded for the second time with Certificate for Good Corporate Governance.
- "Transparency – Zero Corruption" in cooperation with Chambers of Commerce of North West Macedonia within the activities for implementation of the Declaration "Zero Tolerance for the Corruption", staged election for companies with good corporate governance on which INet was selected and awarded for the second time, with certificate for its good corporate governance.

INet continues with good corporate governance activities, which are a part of the corporate strategy of the company.

EU Projects

In order to become familiar with the EU standards, legislative and to be closer to the European community from the managerial perspective, INet has expanded the involvement in the EU projects supported by the governmental institutions and various EU initiatives. The company gain management skills, soft skills, sales skills and strategies of the human resources development which resulted in improved segments and areas identified as company weaknesses. This period the company will be focused on:

- 7-th Framework Programme, launched by the European Commission;
- IPA -Instrument for Pre-Accession Assistance offers rationalised assistance to countries aspiring to join the European Union on the basis of the lessons learnt from previous external assistance and pre-accession instruments;
- South East Europe Programme - aims to develop transnational partnerships on matters of strategic importance, in order to improve the territorial, economic and social integration process and to contribute to cohesion, stability and competitiveness of the region.

Employees Benefits

INet is an employer that is providing its employees with a benefit program responsive both to the diversity of its community and to the many life changes individuals experience during their employment. Qualified employees are eligible for the majority of benefits immediately upon hire.

INet contributes a significant amount of benefits, such as:
Auspicious working time - guided from the idea that working time could improve working atmosphere and support specific social fulfilment to its employees.

Collective worker's insurance - our life, health and body integrity can not be stated in money. Because of INet's care for the security of its employees and their families, every year all of them are collectively insured in one of the best Macedonian insurance companies.

Dental care - INet, on behalf of its employees has concluded a contract with Dental Clinical Center as highest institution in dental area in Republic of Macedonia. All services provided by this dental clinical centre can be used by INet's employees and their closest family.

Medical examinations of workers – according to the Work Protection Low, the company organizes medical examinations of workers once a year. Examination includes few tests that can define each worker's health condition and working abilities.

Compensation for overtime work - in order to complete duties on time, and in some other cases, employees could extend working time. This is defined with procedure for overtime compensation, which means that extension is followed and evaluated by managers, and is compensated according to the Working Relations Low.

Mobile phones – The most qualified employees are given the opportunity to use paid mobile lines and phones. In the near future INet plans to give this opportunity to all employees.

Possibility to purchase goods from many different stores under special conditions - In the few stores for technical equipment, our employees can buy products under special conditions such as: reduced prices and delayed payment without additional costs up to 6 months.

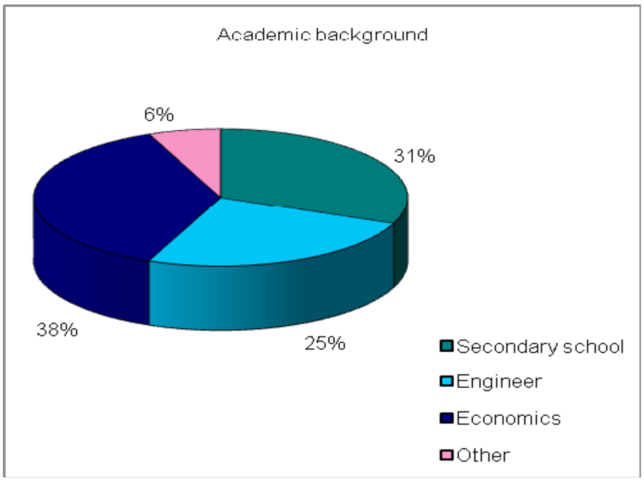
Possibility to purchase products from INet's assortment with special price reduction - All products that INet offers from its own product portfolio can be purchased by employees with reduced price on lowest possible level.

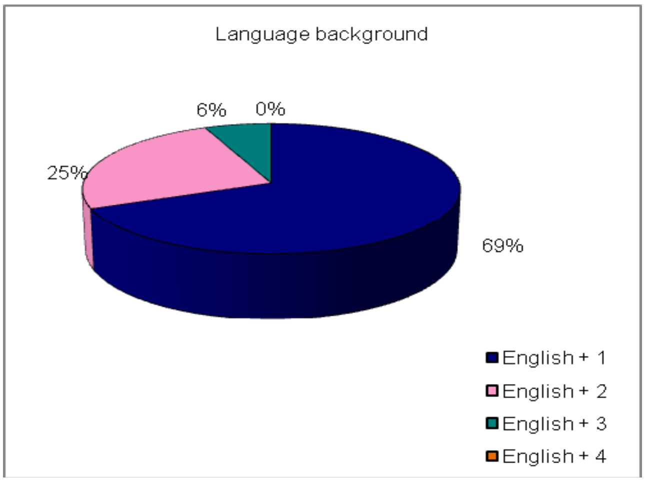
Trainings - Taking care of its own employee skills, facilities and professionalism, in accordance to the innovations and in order the employees to get improvement wherever it is possible and needed, they have chance to attend at different courses and trainings and afterwards to get additional skills useful in everyday activities.

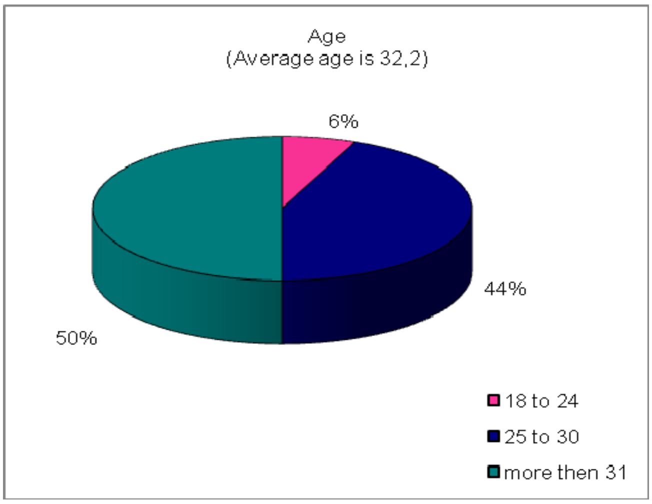
Purchasing goods in Markets with delayed payment - Many years ago INet has concluded agreement with Markets, which means that employees could purchase goods from their markets with special membership cards, up to the previous defined limit, and pay off days later.

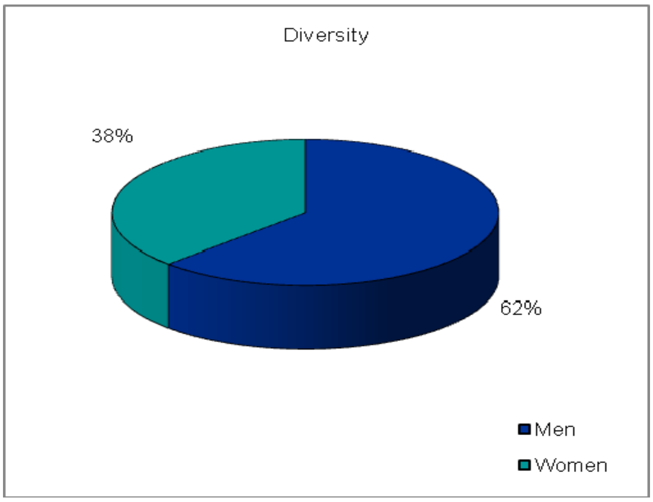
Occasional gifts - INet's yearly budget includes designate sum that could be used for occasional gifts. That means that every celebration connected to employees, like: birthday, wedding, new born child, name day, etc. is noted and rewarded with occasional gift.

INet Employees









Commitment to Quality

In January, 2007 INet had been awarded with IT Mark Certificate. The Appraisal was conducted by ESI (European Software Institute) Centre, Bulgaria.

Being distinctively better than rivals on one or more Key Success Factors (KSFs) presents a golden opportunity for gaining competitive advantage. A key factor to our success today and in a future is a strategy that helps INet to run the business more effectively. One of the best practices that INet choose between accepted internal **Quality Methodologies** is IT Mark certification – CMMI quality certification.

In general, IT Mark assesses and certifies the quality of SMEs in three main areas: one related to overall **Business Management** (strategic, commercial, financial, marketing, etc); another on **Information Security Management**; and the third one, specifically related to the Maturity of their **Software & Systems Processes**. In matters relating to Business Management the reference used is the **10-Squared model**, which was developed to assess applications for Venture Capital. From the Information Security Management point of view, the reference model is the **ISO 27001**, whereas for Software & Systems a lightweight version of **CMMI®** is used, a standard globally acknowledged by the IT world with which ESI has broad experience in providing services to enterprises in all five continents.

In the future, INet will continue to follow existing quality standard processes & procedures, and will intend to be certified by different international rules and regulations. In the mean time, INet insists to achieve the best possible quality and certification, in order to ensure that businesses succeed.

Cautionary Statements for Purposes of the Safe Harbour Provisions

The matters in this Report that are forward-looking statements based on current management expectations that involve certain risks, including without limitation: intense competition; foreign exchange rate fluctuations; failure to attract new sources; failure in timely fashion to remain competitive; the potential for continued restrictive vendor terms and conditions; changes in tax rules and regulations; impact from downturn economic conditions, governmental controls and political or economic instability on domestic market; the potential decline as well as seasonal variations in demands for the company's products and services; product supply shortages; rapid product improvement and technological change; risk of credit loss; continued pricing and margin pressures; dependency on independent shipping companies.

INet has instituted and continues to institute changes to its strategies, operations and processes to address these risk factors to mitigate their impact on the company's results of operations and financial condition. However, no assurance can be given that the company will be successful in these efforts.

SELECTED FINANCIAL DATA

The following table presents selected financial data of INet LLC (“INet” or the “company”). The information set forth should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical financial statements.
References below to 2006, 2007 and 2008 represent the fiscal years of INet as a 52- or 53-week period ending on December 31.

Fiscal Year Euro (€)	***2006***	***2007***	***2008***
Selected Operating Info (1 EUR = Den. as of 31.12)	***61.1741***	***61.2016***	***61.4123***
Net Sales	1.552.698	2.473.691	1.940.842
Gross profit	351.576	520.164	513.316
Income before income taxes	6.667	68.323	65.856
Net income	2.182	53.312	54.512
Common Shares Outstanding	13.844	13.844	
Selected Balance Sheet Info			
Cash and cash equivalents	62.554	95.939	83.411
Total assets	561.402	602.264	623.338
Total liabilities	422.659	410.271	352.621
Stockholder’s equity	138.743	191.992	270.717

The following table sets the percentage of total net sales company’s represented thereby, for each of the fiscal years indicate:

Percentage of Net Sales	***2006***	***2007***	***2008***
Net Sales	100%	100%	100%
Cost of goods sold	77.36	78.97	73.55
Gross profit	22.64	21.03	26.45
Operating expenses: - S&M expenses - R&D expenses - G&A expenses	23.10	19.99	24.12
Other (income) expense	0.01	0,00	1.76
Net income before taxes	0.43	2.76	3.39
Taxes	0.29	0.61	0.58
Net income	0.14	2.16	2.81

The company net sales decrease to €1.94 million in 2008 from €2.47 million in 2007.
Gross margin is relatively stable with intention to grow in the future as the result of the modifying pricing policies and term and conditions for our customers. As we may experience negative sales growth of changing these terms, INet must remain in the stable limit, terms and conditions.
Other (income) expense consisted primarily of interest, foreign currency exchange losses, and fees associated with the company’s accounts receivable facilities. The table is showing tendencies during previous years.

Revenue and Profit by Departments in EUR

The following pie charts present our data about revenue and profit by the three departments of INet:

- ***Systems Sales*** –services small and medium size corporations as well as the retail market through an extensive network of dealers:
  - Representation & Distribution of ICT products (IBM, Lenovo, Xerox products etc.)
  - Red Hat Linux Solutions
  - Trend Micro Antivirus Products & Solutions
  - INet Financial Services – flexible financing options to help consumer market and qualified customers keep costs down and PCs current.
- ***Customer Support Department:***
  - INet Service Level Agreements – long-term contracts for comprehensive setup, network structure optimization & security, system upgrades & migrations, help desk support and maintenance.
  - INet Support Services – for comprehensive setup, help desk support and maintenance:
    - INet SLA Help Desk Support
    - INet Product Installation Services
    - INet Product Maintenance Services
    - INet Cabling & Wireless Solutions Services - offering the best cabling and wireless infrastructure
- ***INet Center of Excellence*** – in order to service corporations of all sizes for a fast implementation of ICT solutions:
  - Consulting Services – SAP implementation and consulting, ICT strategy developments, ICT business assessment, BPR, IBM & Lotus based e-Business & e-Government solutions
  - Education Services – IBM Training Courses, Red Hat Training
  - Participating in EU projects

Chart for revenue and gross margin in 2007

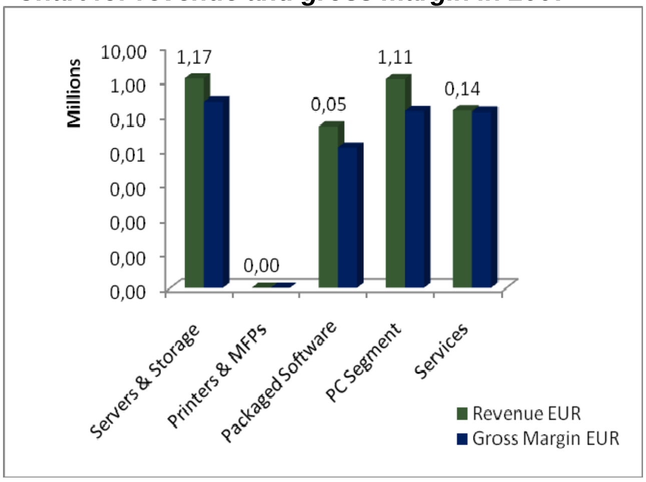
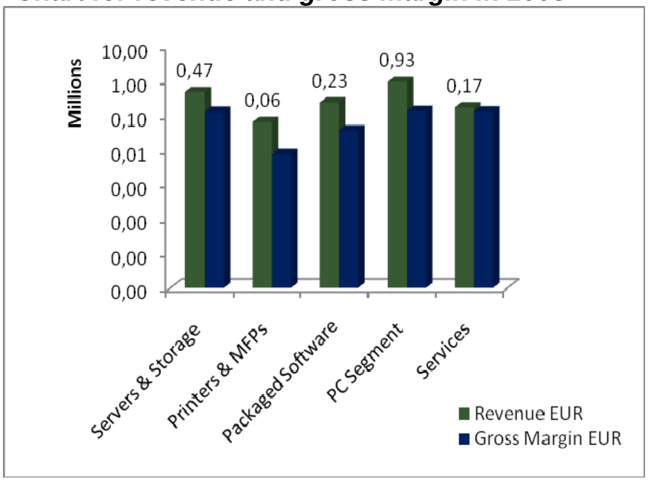


Chart for revenue and gross margin in 2008



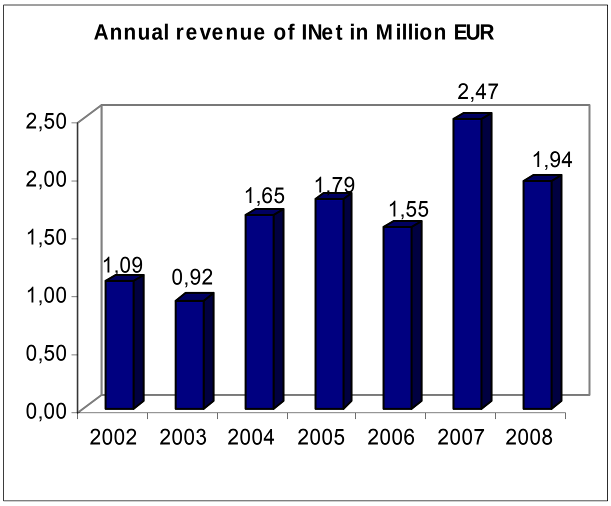
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Sales

INet is one of the leading distributors of IT products and services on the domestic and neighbouring markets. We offer range of IT products, services and education and help generate demand and create efficiencies for our customers and suppliers. The company generated annual sales from existing operations, addition of new vendors and product categories, new customers, increased sales to some existing customer base, reducing the costs etc.

Net sales were primarily attributable to big demand for technology products in the public sector and projects that were on a national and international level. In addition, during 2008, the demand for information technology products and services was becoming stronger and bigger and the addition of new customers (government, public organizations, primary and secondary schools), increased sales to the existing customer base, and expansion of the company's product and service offerings.

If we analyze the period of existing and working of one decade of INet, we can see the chart which shows results of annual revenue for period 2002-2008.



Gross Margin

The IT distribution industry in which we operate is characterized by narrow gross profit as a percentage of net sales (""gross margin") and narrow income from operations as a percentage of net sales ("operating margin"). The margins have been negatively impacted by intense price competition, as well as changes in vendor terms and conditions, including, but not limited to, significant reductions in vendor rebates and incentives, tighter restrictions on our ability to return inventory to vendors, and reduced time periods qualifying for price protection. To mitigate and reduce these factors, we have implemented, and continue to refine, changes to our pricing strategies, inventory management processes, and vendor program processes. In addition, we continuously monitor and change, as appropriate, certain of the terms and conditions offered to our customers to reflect those being set by our vendors.

Critical Accounting Policies and Estimates

The discussions and analyses of our financial condition and results of operation were based on our financial statements, which have been prepared in conformity with International Accounting Standards. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the financial statement date, and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we review and evaluate our estimates and assumptions, including those that relate to accounts receivable, vendor programs, inventories, goodwill, intangible assets and other long-lived assets, income taxes, and contingencies and litigations.

Our estimates are based on our historical experience and a variety of other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making our judgment about the carrying values of assets and liabilities are not readily available from other sources. Actual result could differ from these estimates under different assumptions or conditions.
We believe the following critical accounting policies are affected by our judgment, estimates and/or assumptions used in the preparation of our financial statements.

- *Account Receivable* – Having receivables means that the company has made the sale but has yet to collect the money from the purchaser. We provide allowances for doubtful accounts on our accounts receivable, including retained interest in securitized receivables, for estimated losses resulting from the inability of our customers to make required payments. Changes in the financial condition of our customers or other unanticipated events, which may affect their ability to make payments, could result in were to deteriorate, which may result in the impairment of their ability to make payments, additional allowances may be required. Our estimates are influenced by the following considerations: the small number of customers, the fact that one customer accounts for 50% or more of our net sales, the non-standard credit evaluation of our customer’s financial condition, our credit non-insurance coverage and non-collateral requirements from our customers in certain circumstances.
- *Vendor Programs* – We receive funds from vendors (IBM, Lenovo) for price protection, product rebates, marketing and training, and promotion programs which are generally recorded, net of direct costs, as adjustments to product costs, revenue, or selling, general and administrative expenses according to the nature of the program. Some of these programs may extend over one or more quarterly reporting periods. We accrue rebates or other vendor incentives as earned based on sales of qualifying products or as services are provided in accordance with the terms of the related program. Actual rebates may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued. We also provide reserves for receivables on vendor programs for estimated losses resulting from vendors' inability to pay, or rejections of claims by vendors.
- *Inventories* – Our inventory levels are based on our projections of future demand and market conditions. Any sudden decline in demand and/or rapid product improvements and technological changes could cause us to have excess and/or obsolete inventories. On an ongoing basis, we review for estimated excess or obsolete inventories and write down our inventories to their estimated net realizable value based upon our forecasts of future demand and market conditions. If actual market conditions are less favorable than our forecasts, additional inventory reserves may be required. Our estimates are influenced by the following considerations: sudden decline in demand due to economic downturn, rapid product improvements and technological changes, our ability to return to vendors a certain percentage of our purchases, and protection from loss in value of inventory under our vendor agreements.
- *Goodwill, Intangible Assets and Other Long-Lived Assets* – We asses potential impairment of goodwill, intangible assets and other long-lived assets when there is evidence that recent events or changes in circumstances have made recovery of an asset’s carrying value unlikely. When the sum of the expected, undiscounted future net cash flows is less than the carrying value of an asset, an impairment loss will be recognized. The amount of an impairment loss would be recognized as the excess of the asset’s carrying value over its fair value. Factors we consider important, which may cause impairment include: significant changes in the manner of use of the acquired asset, negative industry or economic trends, and significant underperformance relative to historical or projected future operating results. In accordance with the International Accounting Standards, we will not amortize goodwill or indefinite-lived intangible assets and these assets will be reviewed for impairment at least annually.
- *Income Taxes* – As part of the process of preparing our financial statements, we have to estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenues and expenses, for tax and accounting purposes. We are required to asses the likelihood that our deferred tax assets, which include net operating loss carry forwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we have to provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately

realizable. The provision for current ad deferred tax liabilities involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations by various taxing authorities.
- *Contingencies and Litigations* – There might be various claims, lawsuits and pending actions against us incident to our operations. If a loss arising from these actions is probable and can be reasonably estimated, we record the amount of the loss. Based on current available information, we believe that the ultimate resolution of these actions will not have a material adverse effect on our financial statements. As additional information becomes available, we assess any potential liability related to these actions and may need to revise our estimates. Future revisions of our estimates could materially impact the results of our operations and financial position.

Quarterly Data, Seasonality

INet's quarterly operating results have fluctuated significantly in the past and will likely continue to do so in the future as a result of: seasonal variations in the demand for the products and services such as lower demand during the summer months and pre-holiday stocking in the retail channel; competitive conditions in our industry, which may impact the prices charged and terms and conditions imposed by our suppliers and/or competitors and the prices or terms and conditions we offer our customers, which in turn may negatively impact our revenues and/or gross margins; currency fluctuations; variation in the amount of provisions for excess and obsolete inventory, vendor sponsored programs, and doubtful accounts resulting from technological changes or other changes in the market or e whole; changes in the level of operating expenses; the introduction by suppliers of new hardware and software products and services which may result in the obsolescence of existing products and/or affect the mix of products sold or overall demand; the loss or consolidation of a significant supplier or customer; product supply constraints; interest rate fluctuations and general economic conditions**.**

Liquidity and Capital Resources

Cash flows

We have enhanced its growth and cash needs largely through income from operations, short-term borrowings, credit and other facilities, collecting of accounts receivable, and trade and supplier credit.
In 2008 the objective of the company has been to improve the utilization of working capital and put assets to work through increasing inventory turns and steady management of vendor payables and customer receivables. INet will continue to strive for further improvements in working capital management and debt reduction for the foreseeable future.
Our cash and cash equivalents totalled 83€ thousands in 2008.

Capital resources

Starting from 2003 and until the end of the 2008 the company had 11 Loan Agreements with Crimson Capital provided for working capital and investments. They resulted with financial growth trend with intention to continue in next years.

Crimson Capital – Loan Agreements:
- From 07.11.2003 to 16.01.2004, (Pilot project 1) - 45.700,00 USD for Working capital;
- From 27.01.2004 to 20.12.2004, (Project 2 and 3) – 2 x 100.000,00 USD for Working capital;
- From 13.01.2005 to 15.06.2005 (Project 4) – 100.000,00 USD for Investments and Working capital;
- From 05.07.2005 to 25.11.2005 (Project 5) – 100.000,00 USD for Investments and Working capital;
- From 28.11.2005 to 30.05.2006 (Project 6) – 120.000,00 USD for Investments and Working capital;
- From 12.06.2006 to 31.12.2006 (Project 7) – 120.000,00 USD for Investments and Working capital;
- From 20.12.2006 to 21.08.2007 (Project 8) – 120.000,00 USD for Investments and Working capital;
- From 21.08.2007 to 22.02.2008 (Project 9) – 100.000,00 USD for Investments and Working capital;
- From 29.02.2008 to 03.03.2009 (Project 10) – 120.000,00 USD for Investments and Working capital;
- From 26.06.2009 to 26.06.2010 (Project 11) – 100.000,00 EUR for Investments and Working capital;

INet believes that existing cash resources and cash provided by operating activities, supplemented as necessary with funds available under credit arrangements will provide sufficient resources to meet its present and future working capital and cash requirements.

Market risk
We are exposed to the impact of the foreign currency fluctuations and interest rate changes. In the normal course of business, INet is unable to employ established policies and procedures to manage its exposure to fluctuations in the value of the foreign currencies and interest rates using a variety of financial instruments. It is the our policy to utilize financial instruments in a future to reduce risks, but not to enter into foreign currency or interest rate transactions for speculative purposes.
In addition to product sales and costs, the company has foreign currency risk related to debt that is denominated in local currency. The company's foreign currency risk management objective is to protect its earnings and cash flows resulting from sales, purchases and other transactions from the adverse impact of exchange rate movements.
We are exposed to changes in interest rates primarily as a result of our short-term debt used to maintain liquidity and finance inventory, capital expenditures and business expansion. The company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs.

Market risk management
Foreign exchange and interest rate risk should be monitored in a future using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk techniques. ("VAR"). The VAR model determines the maximum potential loss in the fair value of foreign exchange rate sensitive financial instruments assuming a one-day holding period. The VAR model estimates should be made assuming normal market conditions and 95% confidence level.

Euro conversion
Beginning in January 1, 2002, the company has implemented plans to address the issues raised by the euro currency conversion. The company's Built-to-Run ERP computer information systems and ISO-9000:2000 business processes and equipment generally accommodate multiple currencies and euro-denominated transactions.

FINANCIAL STATEMENTS AND SUPLEMENTARY DATA

Balance Sheet

ASSETS	*Amount in EUR*	
	2007	*2008*
A. The requests for the inscribed, but not paid capital	**0**	**0**
B. Fixed assets	**125.634**	**113.985**
Non- material assets	0	0
Material assets	121.131	107.495
Financial investments	4.503	6.490
C. Current assets	**476.630**	**509.353**
Inventories - stocks	178.141	190.594
Accounts receivable - debtors	202.550	235.348
Marketable securities – short – term investments	0	0
Cash and cash equivalents	95.939	83.411
D. Prepaid expenses	**0**	**0**
E. Assets	**602.264**	**623.338**
LIABILITIES AND STOCKHOLDERS' EQUITY		
A. Capital and reserves	**191.993**	**270.717**
Capital –shareholder's capital	69.156	115.571
Paid – in capital	0	0
Revaluation reserve	18	18
Mandatory reserve	16.384	27.338
Accumulated profit	53.123	65.397
Transferred loss (-)	0	0
The profit for the financial year	53.312	62.393
VIII. The loss for the financial year	0	0
B. Long term reservation for risks and expenses	**0**	**0**
C. Long and short – term liabilities	**410.271**	**352.621**
D. Delayed payment of expenses and revenues in total period	**0**	**0**
E. Liabilities and stockholders' equity	**602.264**	**623.338**

Income Statement

REVENUES	*Amount in EUR*	
	2007	*2008*
Sales revenue	2.473.691	1.940.872
Other incomes	42.472	43.234
Extraordinary incomes	101	15.219
Total	**2.516.264**	**1.999.325**
EXPENSES		
Operating expenses	2.394.655	1.838.924
Other expenses	53.287	56.733
Extraordinary expenses	0	18.891
Total	**2.447.942**	**1.914.548**
FINANCIAL RESULT		
Net profits before taxes	68.322	84.747
Net losses before taxes	0	0
Taxes	15.011	11.344
Net profits after taxes	53.311	73.403
Net losses after taxes	0	0

FINANCIAL STATEMENTS ANALYSIS

The company is using the following two analysis standards of comparison of the financial measures over a period of time:

- Percentage Analysis - Horizontal and Vertical Analysis of the past performance measurements of the company;
- Comprehensive Ratio Analysis - Evaluating Liquidity, Profitability, Long-term Solvency, Cash Flow Adequacy, Market Strength.

Percentage Analysis

Horizontal and Vertical Analysis – Comparative Statements

Percentage analysis of the income statement focuses in the gross profit, expenses, and net income related to the gross sales. As sales grow or decline over the years, the expenses also grow or decline, which makes a direct euro-to-euro comparison impractical. However, the expenses remain relatively stable as a percentage of sales.

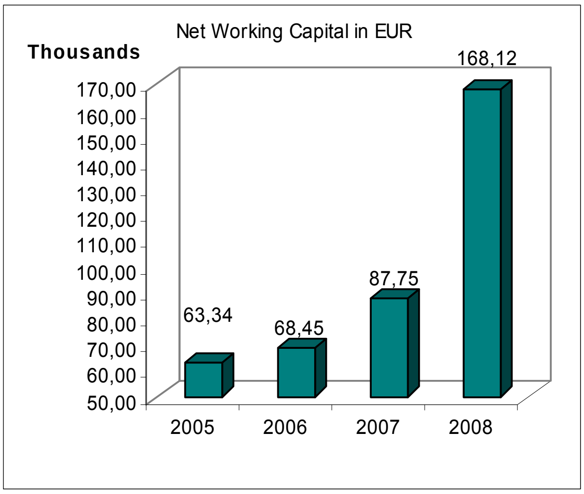
Percentage comparison is also done on the balance sheet to see how each item relates to the total assets. To calculate the balance sheet percentages, the individual accounts, including the liability and equity accounts, are divided by the total assets figure. In such a case the company's performance are compared to the historical performance and to the IT industry averages.

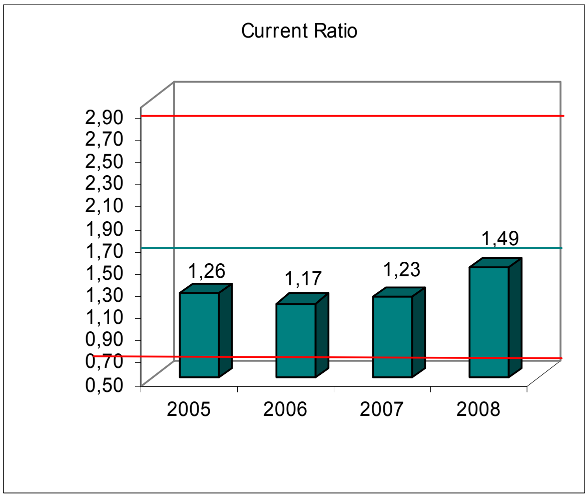
The horizontal comparison and common-size statements (vertical analysis) are explained above in this Report in the part "Management discussion and analysis". The management will use the common-size statements in the future to analyze the operating and financing characteristics of the company with other companies of same or different size in the same IT industry.

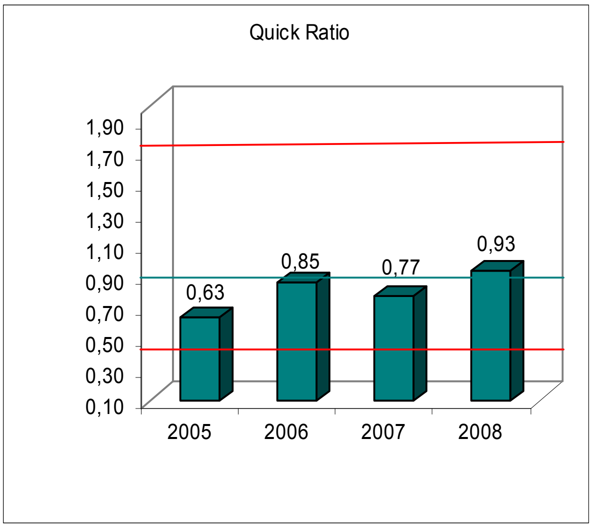
INet is using the ratio analyses which are reports for the solvency of the company, to compare the financial results in the previous years or with other companies in the industry, and to point out areas needing further investigation.

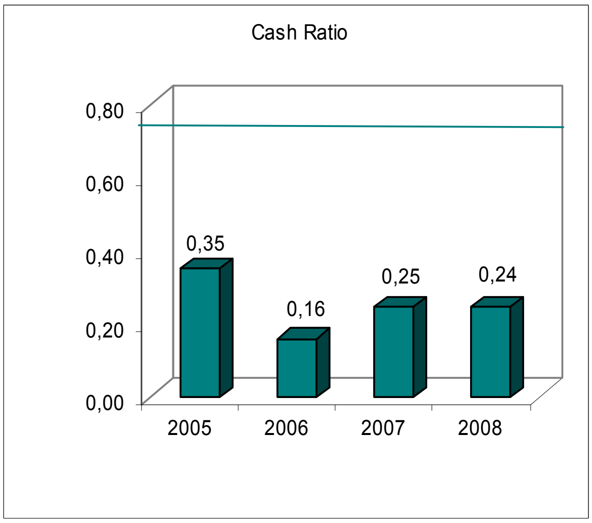
The company is using Dun & Bradstreet "Industry Norms and Key Business Ratios" industry norms for comparison. According to the reports that INet is preparing on yearly, monthly and daily base, there are ratios who gives clear picture for the INet's solvency and any ratio is maintained at a specific value as part of a financing agreement and is calculated and monitored on a timely basis. Ratio Analysis enables to spot trends in a business and to compare its performance and condition. To do this we compare our ratios with the industry averages and watching, especially for any unfavourable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow solving the business problems before business is destroyed by them. Industry averages can be used only as a broad guideline to compare the company's performance.

Indicators of liquidity - are measured by the ability of the company to satisfy its short term liabilities as they come due. It refers to the company's overall financial position.









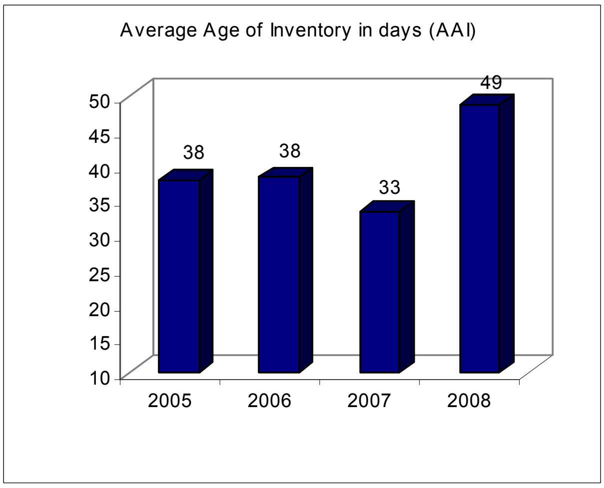
Net working capital is more a measure of cash flow than a ratio. Over the period that has been analyzed, net working capital is constantly growing which is a result of the intention for reasonable growth and stable trend according to the company growth policy.

The current ratio (CUR) method is a model for measuring the liquidity and it is an indicator of a company's ability to pay short - term obligations. During the past years, the indicator was stable. In year 2008, this indicator increased at 1.49.

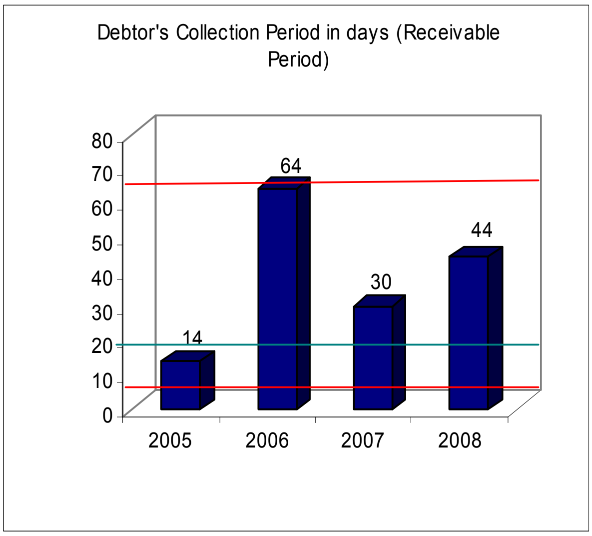
Quick (Acid – Test) Ratio (QUR) as an indicator of the extent to which the company can pay current liabilities without to rely on the sale of inventory, and increased slightly in 2008.

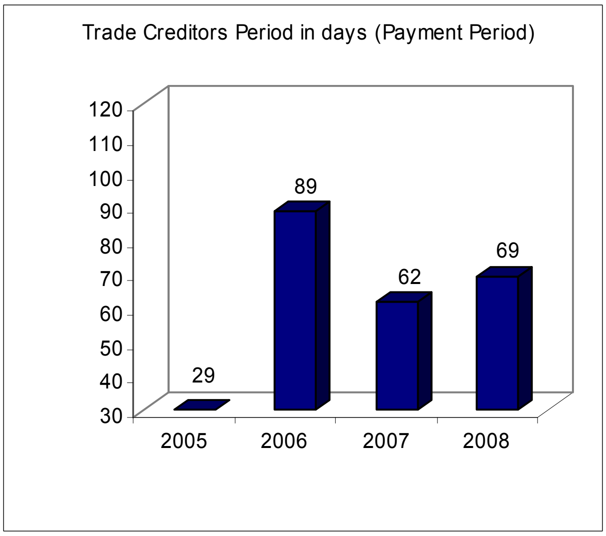
Cash ratio- measures the ability quickly to liquidate the assets and cover short - term liabilities. The cash ratio in 2008 is 0.24.

Activity ratios - measures the speed with which accounts are converted into sales or cash. This ratio indicates that INet is in a good shape and the industry averages have been reached.



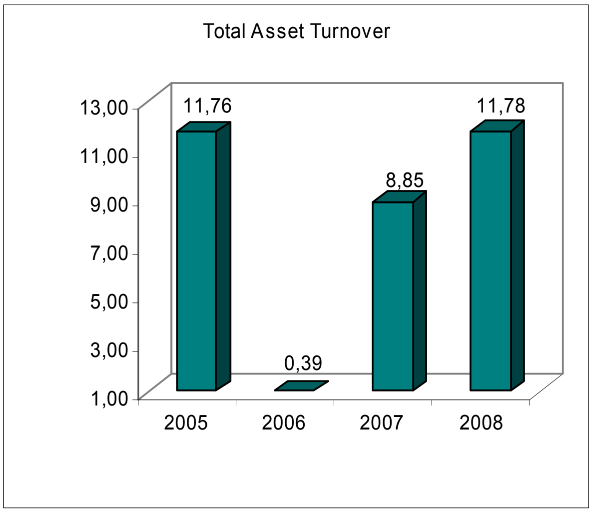
Average Age of Inventory in days (AAI)- The ratio is stable and in the predefined industry limits and reflect good relative inventory levels of the company.

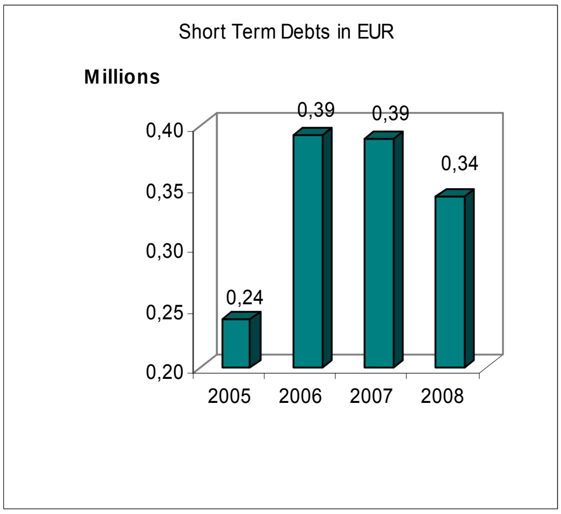


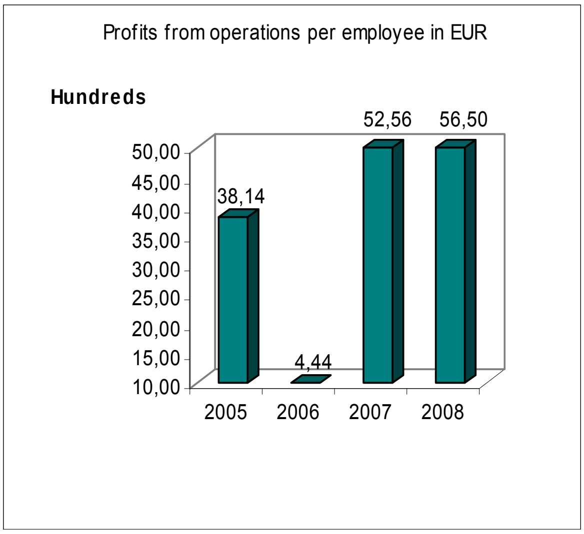


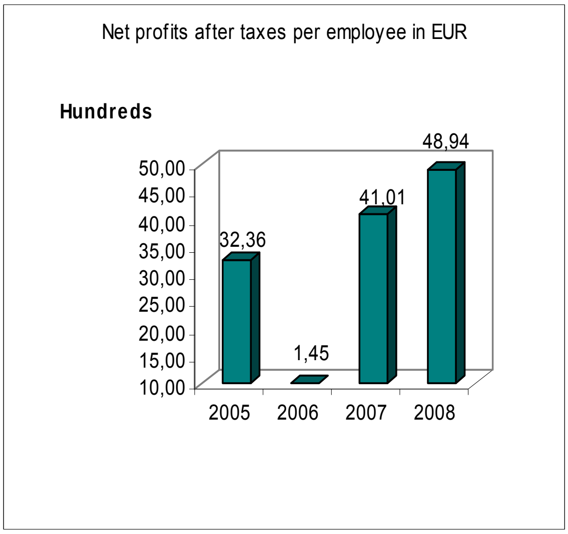
Average collection period (ACP) increased up to 44 days in 2008 and Average payment period (APP) increased in 2008 from 62 to 69 days, which means that INet is should collect the account receivable for shorter time, to pays its bills in shorter time then previous years in order to reflect good success of company's credit and collection policies. Although overall liquidity appears good, attention should be given to accounts receivable and accounts payable, even they are in the industry frame and are satisfactory. Still is in the best interest of the company to collect and pay in very short time and to have complete influence on the entire cash flow and outflow process.

Indicators of productivity, efficiency and operating - in addition there are *Total asset turnover*, *Short term debts* and also data about *Profits from operations* and *Net profits after taxes per employee* from 2005 to 2008. Total assets turnover indicate that INet has efficiency witch is on approximate high level. The company's operations have been financially efficient. Short term debts are on approximate level as in previous years.

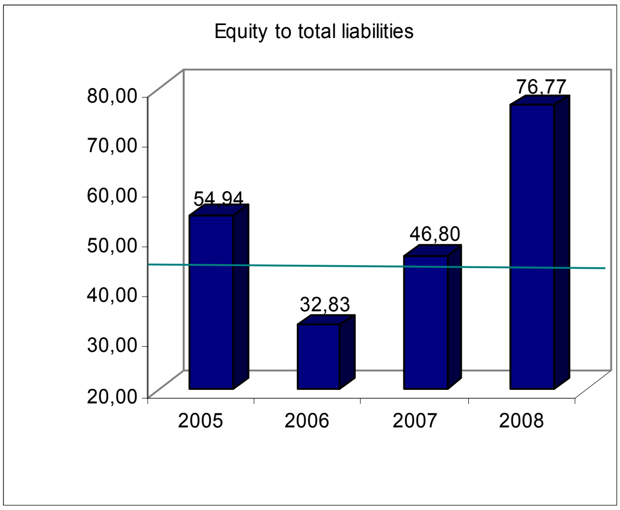


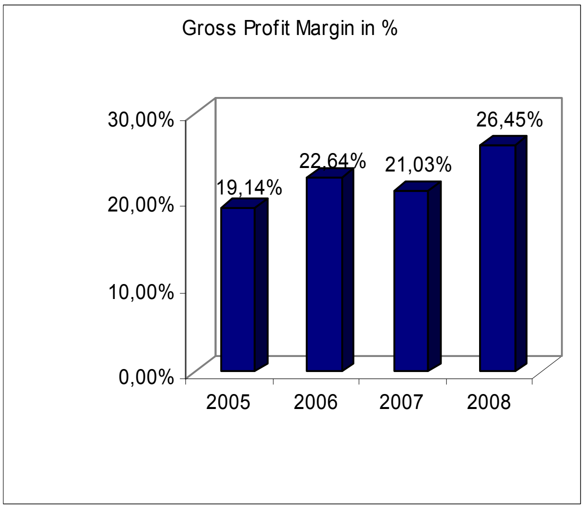






Financial leverage – is the magnification of risk and return of its debt in relation to total assets. The higher the financial leverage the more the company is considered risky. As for most ratios, an acceptable level is determined by its comparison to ratios of companies in the same industry and industry averages.





The gross profit margin ratio tells us the profit a business makes on its cost of sales, or cost of goods sold. It is a very simple idea and it tells us how much gross profit per 1€ of turnover our business is earning. Annual gross profit for 2009 is projected to be higher with while keeping the operation expenses at the same or minor level. The gross margin is not an exact estimate of the company's pricing strategy but it does give a good indication of financial health. Without an adequate gross margin, a company will be unable to pay its operating and other expenses and build for the future. The margin is stable during these years, and we have implemented and continue to refine changes to our pricing strategies, inventory management processes, and administration of vendor subsidized programs.

NOTES TO FINANCIAL STATEMENTS

Note 1 Organization and Basis of Presentation

INet LLC (the "company" or "INet") is a privately owned entrepreneurial-based company involved in sales, rental and services of personal computers and IT based business solutions, IT education and consulting.

Note 2 Significant Accounting Policies

Fiscal year

INet financial statements are prepared for the calendar year, as a company fiscal year. All references represent the 52-week fiscal year ended December 31.

Use of Estimates

The financial statements have been made in accordance with the requirements of the regulation generally accepted in the RoM, as well as the usual accounting practice. The domestic accounting regulation differs in some aspects from the International Accounting Standards.

Preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the financial statement date, and reported amounts of revenue and expenses during the reporting period.

These accounting policies are used consequently from year to year during a longer period of time.

INet classification rules are: INet has developed Accounts and Chart of Accounts for its own needs, with seven digits in the account numbers and hundreds of accounts in the chart of accounts.

Revenue and Expenses Recognition

INet generally recognizes sales and revenues on hardware and software products sales at the time of shipment to the customer. Service revenues are not recognized over the contractual period but upon delivery of the services, i.e. as the services are provided and performed.

The expenses are assigned to the accounting period in which they are used to produce revenue. Revenues and expenses are shown in the following categories:

- Sales – Cost of Goods Sold = Gross Profit
- Gross Profit – Operating Expenses = Income from Operations
- Income from Operations + Interest Income – Interest Expense – Taxes = Net Income After Taxes

Vendor Programs

Funds received from vendors for price protection, product rebates, marketing or training programs are recorded net of direct costs as adjustments to: cost of goods sold; selling, general and administrative expenses; or revenue according to the nature of the program.

Warranties

INet's suppliers generally warrant the products distributed by the company and allow returns of defective products, including those that have been returned to the company by its customers, The company does not independently warrant the products it distributes. However, INet does warrant the following: (1) its services with regard to products that it configures for its customers, and (2) products that it builds to order from components purchased from other sources.

Foreign Currency Translation (current rate) and Remeasurement

All foreign-currency-denominated liabilities are converted into local currency values using the exchange rate prevailing at the fiscal year ending date (the current rate).

Cost value of financial instruments

The carrying amounts of cash, accounts receivable, accounts payable and other accrued expenses approximate cost value because of the short maturity of these items. The carrying amounts of outstanding debt issued pursuant to bank credit agreements approximate cost value.

Cash
The company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.
The cash and cash equivalents consist of cash on hand, bank balances and foreign exchange accounts. INet does not have any limitation regarding free disposal with the cash.

Inventories
INet is pricing inventory at cost under the *perpetual merchandise inventory system* according to the first-in, first-out (FIFO) method, as more effective for providing information about quantities and ensuring optimal customer service.

Property and Equipment
Property and equipment are recorded at cost and depreciated using the straight-line method over the useful lives estimated according to the domestic officially announced depreciation rate. The calculation is made for each asset separately (not on group of assets).

Long-Lived Assets
INet assesses potential impairments to its long-lived and intangible assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected, undiscounted future net cash flows is less than the carrying amount of the asset. The amount of the impairment loss would be recognized as the excess of the asset's carrying value over the fair value.

Investments in Available-for-Sale Securities
The company classifies its existing marketable equity securities as available-for-sale. INet valuation rules are: All of the company's securities, i.e. short- and long-term investments, are classified as available-for sale and reported at book value, with unrealized gains and losses reported in assets.

Derivative Financial Instruments
The company operates on the domestic market and is not in the position to reduce its exposure to fluctuations in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments.

Note 3 Income Taxes
According to the domestic legislation, the company is paying 15% income taxes.

Note 4 Segment Information
INet operates predominantly in a single industry segment as distributor of information technology products and services. The company's reportable measure of segment profits is income from operations. The accounting policies of the segments are those described in the summary of significant accounting policies. Geographic area in which the company operates include mainly the domestic market but also has developed its business in Kosovo (Serbia and Montenegro).

Note 5 Common Stock
The Shareholders Equity of the company is stated at the accounting value. The equity of INet is 100% private.The reserves are founded through distribution of the profit according to the domestic regulations.

INDEPENDENT AUDIT'S REPORT FOR THE YEAR 2008

Prepared by Deloitte DOOEL Skopje, on February 28, 2008

1. General Information

INet AD, Skopje ((hereinafter the "Company") was established on April 21, 1991 as a company for construction and trading under the name Toning C.O., Skopje. In the period from 1993 to 2001 the Company changed its name and form of organization. On July 19, 2001, the Company changed its name into INet AD. In 2008 the Company changed its legal form and by the Decision 30120080067417 of the Central Register of the Republic of Macedonia dated October 31, 2008 it was registered as a limited liability company under the name INet doo, Skopje.

The Company is an authorized distributor of the products of IBM, Lenovo, Red Hat, SAP and Xerox.

The Company's core business is distribution and sales of network and computer equipment and software as well as IT management services.

As of December 31, 2008, the Company had 16 employees (December 31, 2007: 13).

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 the year presented.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company'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 3.

2.2 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7„Financial Instruments: Disclosures" - Reclassification of financial assets (effective on or after 1 July 2008),
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7 „Financial Instruments: Disclosures" - Reclassification of financial assets, effective date and transition (effective on or after 1 July 2008),
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007),
- IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008),
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

2. Summary of significant accounting policies (Continued)

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following standards, revisions and Interpretations were in issue but not yet effective:

- IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009),
- IFRS 3 (revised) “Business Combinations” (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (revised) “First-time Adoption of IFRS” (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 27 “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of investment in a subsidiary, jointly-controlled Company or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 1 (revised) “Presentation of Financial Statements” – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) “Borrowing Costs” (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 2 “Share-based Payment” – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 13 “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008),
- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008),
- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 “Transfers of Assets from Customers” (effective for transfer of assets from customers received on or after 1 July 2009).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

2. Summary of significant accounting policies (Continued)

2.4 Basis of Consolidation

Subsidiaries are all legal entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another Company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original incorporation of subsidiaries and the minority's share of changes in equity since the date of the incorporation. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The accompanying consolidated financial statements include the financial statements of the parent company Inet doo, Skopje and IKS doo, Skopje. Inet doo, Skopje owns 80% of the paid-in capital of IKS doo, Skopje, which was founded in 2007 and was registered in the Central Registry of the Republic of Macedonia on August 27, 2007. The primary activity of this Company is providing international courier services.

2.5 Investment in Associate

An associate is an Company over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

2.6 Revenue Recognition

The Company recognizes revenues from the sale on domestic and foreign markets.

The Company recognizes revenues from the sale of goods when control is transferred, i.e. goods are delivered to customers. Revenues are recorded on an accrual basis, i.e. when they arise. Sales are stated at invoiced value, net of discounts and VAT.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

2. Summary of significant accounting policies (Continued)

2.7 Foreign Currency Translation

Transactions denominated in foreign currencies have been translated into Denars at official rates set by the National Bank of the Republic of Macedonia at the dates of the transaction. Net foreign exchange gains or losses, resulting from foreign currency translation, are included in the statement of operations. Assets and liabilities denominated in foreign currencies are translated at the balance sheet date using official rates of exchange ruling on that date.

2.8 Borrowing Costs

All costs associated with short-term and long-term borrowings are recognized as an expense in the statement of income in the period when they are incurred.

2.9 Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of local and foreign currency funds at bank and cash in hand.

2.10 Trade Receivables

Trade receivable are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of the receivables.

2.11 Inventories

Inventories consist of trade goods, communication equipment and software

Inventories are measured at the lower of cost and net realizable value. Cost consists of the invoice amount and import duties and taxes, transportation costs and other cost related to the purchase.

The Company applies FIFO method in calculating the cost of inventories.

2.12 Equipment

Equipment is carried at cost upon their acquisition and is revalued annually using the official revaluation coefficients based on the general manufactured goods price index in the Republic of Macedonia. Such coefficients are applied to historical cost or later valuation, and to accumulated depreciation. Effects of the revaluation are credited to the revaluation reserve, forming part of the equity. The last revaluation performed dates back to the year 2004.

Depreciation is charged on a straight-line basis at prescribed rates to allocate the cost of equipment, over their estimated useful lives. The annual depreciation rates applied are following:

	2008	**2007**
Motor vehicles	25%	25%
Computers	25%	25%
Furniture and equipment	20%	20%
Tools and accessories	15%	15%

2. Summary of significant accounting policies (Continued)

2.12 Equipment (Continued)

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts. Any gains or losses on disposal are recognized in operating revenues or operating expenses, respectively.

2.13 Taxation

Current Income Tax

Current income tax is calculated in accordance with the provisions of the relevant legislation of the Republic of Macedonia, based on the profit or loss recognized in the income statement prepared pursuant to Macedonian accounting regulations.

The estimated tax on monthly profit is paid in advance, as determined by the tax authorities. Final tax on profit are payable at rate of 10% (2007: 12%), based on the annual profit shown in the statutory profit and loss account.

Value Added Tax

Each sale of trade goods on the domestic market is subject to the VAT pursuant to the Law on Value Added Tax.

Deferred Income Tax

Deferred income tax is to be provided by using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently enacted tax rates at the balance sheet date are used to determine the deferred income tax. Deferred tax liabilities are recognized for all taxable temporary differences.
Deferred tax assets are recognized for deductible temporary differences and the tax effects of income tax losses are carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the tax loss carry forwards may be utilized. The Company's management assesses that there are no temporary differences as a basis for deferred income tax in these consolidated financial statements.

2.14 Employees Benefits

In accordance with the regulatory requirements, the Company is obligated to pay contributions on salaries to tax authorities. These obligations involve payment of taxes and contributions to the Fund for Pension and Disability Insurance of the Republic of Macedonia (Pension Fund) and depend on the salary range. The Company does not have defined benefit plans.

The Company is obligated to pay retirement benefits in an amount equal to two monthly salaries earned by the employee. The management believes that the present value of the future obligations to employees, with respect to retirement benefits, is not materially significant and hence, it has not recognized a provision for the aforementioned payments. The Company has not recognized a provision for the termination indemnities as considered not material.

2.15 Related Party Transactions

Related parties are those where one of the parties is controlled by the other or has significant influence in making financial and operating decisions of the other party.

3. Critical accounting judgments and key sources of estimation uncertainty

Fair value

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Company applies professional judgment in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in Note 20.

Useful life of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic, industry factors or local market. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. As an example, if the Company was to shorten the average useful life by 10%, this would result in additional annual depreciation and amortization expense of approximately Denar 272 thousand.

Impairment of financial assets

The impairment for doubtful accounts is based on estimated losses resulting from the inability of the third parties to comply with their contractual obligations. These estimations are based on the aging of the account receivables balance and the historical write-off experience, customer credit-worthiness and changes in the customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections. If the financial condition of the customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far.

Writing down of inventories to net realizable value

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Estimates of net realizable value also take into consideration the purpose for which the inventory is held. The actual net realizable value of the inventory may lower than the estimated and further expenses may
be charged in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. Sales

	In thousands of Denars For the year ended December 31, 2008	2007
Income from sales on domestic market	89.745	79.962
Income from sales on foreign market	24.081	68.706
Income from sales to associates	1.530	-
	115.356	148.668

5. Other income

	In thousands of Denars For the year ended December 31, 2008	2007
Write-off the payables	-	171
Credit notes	2.950	2.157
Reimbursed training expenses	921	-
Surpluses	5	-
Capital gain from sale of vehicles	5	327
Other income	52	77
	3.933	2.732

The credit notes of Denar 2,950 thousand (2007: Denar 2,157 thousand) relate entirely to the credit notes received from Lenovo Singapore Pte Ltd, Singapore and IBM, Austria.

6. Staff costs

	In thousands of Denars For the year ended December 31, 2008	2007
Gross Salaries	5.094	4.163
Per diems	226	438
Employees' allowances	1.317	1.159
	6.637	5.760

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

7. Other operating expenses

In thousands of Denars
For the year ended December 31,

	2008	**2007**
Materials and consumables	219	215
Energy	548	553
Write-off of bad debts and doubtful trade receivables	-	291
Write-off of investments in securities	-	930
Transportation services	845	1.207
Maintenance	3.789	4.394
Rent	779	747
Intellectual and consulting services	1.244	1.163
Entertainment	1.604	1.540
Insurance premiums	335	727
Taxes and contribution non-depending on income	47	154
Membership fees	207	-
Bank charges	635	1.076
Temporary engaged employees	372	3.919
Expenses from employees engaged on projects	3.548	-
Carrying amount of equipment and intangible assets written off	44	38
Training services for SAP	1.160	-
Shortages	16	-
Other expenses	1.957	2.456
	17.349	19.410

8. Income tax

The tax charge for the year can be reconciled to the profit per the Income Statement as follows:

In thousands of Denars

	2008	**2007**
Profit before tax	5.069	4.180
Reconciliation of non-deductible income and expenses before tax purposes	1.898	3.475
Tax base after reconciliation	6.967	7.655
Income tax at income tax rate of 10% (2007:12%)	697	919

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

9. Cash and cash equivalents

	In thousands of Denars December 31, 2008	December 31, 2007
Cash at banks in Denars	4.170	2.176
Cash at banks in foreign currency	1.204	3.870
Cash in hand	1	91
	5.375	6.137

10. Trade receivables

	In thousands of Denars December 31, 2008	December 31, 2007
Domestic trade receivables	13.192	10.017
Foreign trade receivables	828	1.632
Trade receivables from associates	283	-
	14.303	11.649

11. Inventories

	In thousands of Denars December 31, 2008	December 31, 2007
Trade goods on stock	11.694	10.805
Trade goods on reparing	-	95
Small inventory	7	-
	11.701	10.900

12. Other receivables

	In thousands of Denars December 31, 2008	December 31, 2007
Advances to suppliers	3	3
Receivable for overpaid VAT	770	669
Receivables from employees	3	4
Prepayments	97	74
	873	750

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

13. Investment in Associates

	In thousands of Denars December 31, 2008	December 31, 2007
Sapphir doo, Skopje	-	-
Aptiva Ltd - Pristina, Kosovo	31	31
	31	31

In November 2007, the Company together with four other affiliates, took a decision to set up a company under the name Aptiva Ltd. based in Pristina, Kosovo. The Company's share in this associate is 20%.

In April 2008, the Company founded Sapphir doo, Skopje, together with Sapphir GMBH Vienna, Austria. The Company holds 40% of the share of this associate.

The movement of the investments in associates is as follows:

In thousands of Denars

	Sapphir doo, Skopje	Aptiva Ltd., Pristina
Cost of investment in Aptiva Ltd. Pristina	-	31
As of December 31, 2007	-	31
Cost of investment in Sapphir doo, Skopje	123	-
Share of loss of associates	(123)	-
As of December 31, 2008	-	31

The financial position and performance of the associates, as of, and for the year ended December 31, 2008 are as follows:

In thousands of Denars

	Sapphir doo, Skopje	Aptiva Ltd., Pristina
Total assets	13	179
Total liabilities	225	-
Revenue	1.206	-
(Loss)/profit for the year	(519)	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

14. Equipment and intangible assets

Movements of equipment and intangible assets during 2008 are as follows:

	Equipment	Motor Vehicles	Total	Intangible Assets
Cost				
Balance, January 1, 2008	11.098	4.130	15.228	41
Additions	1.854	-	1.854	-
Disposals	(2.151)	-	(2.151)	-
Balance, December 31, 2008	10.801	4.130	14.931	41
Accumulated depreciation				
Balance, January 1, 2008	7.018	797	7.815	-
Charge for the year	1.529	924	2.453	-
Disposals	(1.939)	-	(1.939)	-
Balance, December 31, 2008	6.608	1.721	8.329	-
Net carrying amount at December 31, 2008	4.193	2.409	6.602	41
Net carrying amount at December 31, 2007	4.080	3.333	7.413	41

As of December 31, 2008, the motor vehicles with net carrying amount of Denar 2,409 thousand (December 31, 2007: Denar 3,333 thousand) were mortgaged as secured loans granted by TTK Banka AD, Skopje (Note 18).

15. Trade payables

	In thousands of Denars December 31, 2008	December 31, 2007
Domestic trade payables	2.677	5.831
Foreign trade payables	13.874	14.404
	16.551	20.235

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

16. Short-term borrowings

	In thousands of Denars December 31, 2008	December 31, 2007
Razvojna Fondacija Crimson, Skopje	1..953	-
Razvojna Fondacija Crimson, Skopje	-	2.500
	1.953	2.500

As of December 31, 2008, the short-term loan in the amount of Denar 1,953 thousand refers to the short-term loan received by Razvojna Fondacija Crimson, Skopje approved on March 3, 2008 via Tutunska banka AD - Skopje, with an interest rate of 8.5% p.a., payable in monthly instalments. The last instalment is due on March 3, 2009.

As of December 31, 2007, the short-term loan in the amount of Denar 2,500 thousand refers to the remaining part of the short-term loan granted in original amount of Denar 5,000 thousand by Razvojna Fondacija Crimson, Skopje approved on August 21, 2007 via Tutunska Banka AD – Skopje, with an interest rate of 9% p.a., payable in 4 installments of Denar 1,250 thousand each.

17. Other current liabilities

	In thousands of Denars December 31, 2008	December 31, 2007
Advances received	50	154
Liabilities for income tax	19	462
Liabilities for net salaries and contributions	485	329
Other liabilities to employees	82	52
Liabilities for dividends	2.248	-
Other liabilities	289	69
	3.173	1.066

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

18. Long-term borrowings

	In thousands of Denars December 31, 2008	December 31, 2007
TTK Banka AD, Skopje - loan for purchasing a motor vehicle with an interest rate of 10.4% p.a. and 48 equal monthly installments out of which the last one will have matured as of November 11,2009	168	311
TTK Banka AD, Skopje - loan for purchasing a motor vehicle with an interest rate of 10.4% p.a. and 48 equal monthly installments out of which the last one will have matured as of January 4, 2010	531	998
Long-term loans in Denars	699	1.309
Current portion of long-term loans	(655)	(613)
	44	696

The motor vehicles are pledged as loans security.

19. Equity

Increase of Paid-in Capital

As of October 31, 2008 the current owners of the Company concluded an investment agreement with Small Investment Fund, Skopje. Pursuant to this agreement Small Investment Fund, Skopje paid in Denar 2,865 thousand, an equivalent of USD 60,000, and obtained 15% of the ownership and the voting rights of the Company. This increase was registered with the Central Register of the Republic of Macedonia.

The structure of the ownership as of December 31, 2008 and 2007, according to the Central Registry of the Republic of Macedonia is as follows:

	In Thousands of Denars	% of ownership as of December 31, 2008	2007
Toni Petreski	3.354	68%	80%
Aleksandar Naumovski	836	17%	20%
Small Investment Fund, Skopje	2.907	15%	-
	4.232		100%

According to the stipulations of the aforementioned investment agreement, if the Company achieves certain financial covenants for the year ended December 31, 2008, then Small Investment Fund is obligated to contribute in addition the amount of USD 30,000 as paid-in capital, for which it will obtain further 0.5% of the ownership. If those covenants are not fulfilled, Small Investment Fund will have the right to decide for new possible terms, conditions and form under which it will provide the additional USD 30,000.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

19. Equity (continued)

Increase of paid-in capital (continued)

The financial covenants according to the investment agreement are:

- Consolidated net operating income before interest and taxes for the year ended December 31, 2008 amounts to at least Denar 6,200 thousand;
- Consolidated net book value of the Company, i.e. its assets less liabilities, less the carrying amount of a specified vehicle, amounts to at least Denar 14,000 thousand.

Statutory Reserves

The Company maintains obligatory reserves, as a common fund, by allocation of 15% from the net profit for the year. The allocation is required until the balance of the reserve reaches 1/5 of the Company's share capital. Up to this minimum, the obligatory reserve can be used only for covering losses. Any excess over this minimum can be used for dividend distribution, if the founders issue such decision.

20. Financial Instruments

20.1 Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholder through the optimization of the debt and equity balance.

The structure of Company's equity comprises the paid in capital, legal reserves and retained earnings.

Gearing Ratio

The management reviews the capital structure on an annual basis. As part of this review, the Management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio as of December 31, 2008 and 2007 is as follows:

	In thousands of Denars Year ended December 31,	
	2008	**2007**
Short-term borrowings (Note 16)	1.953	2.500
Long-term borrowings (Note 18)	-	696
	1.953	3.196
Total equity (Note 19)	16.550	11.811
	0,12	0,27

20.2 Significant Accounting Policies related to Financial Instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized in respect of each class of financial asset and financial liabilities are disclosed in Note 2 to the consolidated financial statements.

20. Financial instruments (Continued)

20.3 Categories of Financial Instruments

	In thousands of Denars Year ended December 31,	
	2008	**2007**
Financial assets		
Cash and cash equivalents and receivables	19.678	17.786
Investments in associates	31	31
	19.709	17.817
Financial liabilities		
Financial liabilities at amortized cost	19.203	24.044
	19.203	24.044

The financial assets include cash and cash equivalents, trade receivables and investment in associates. The financial liabilities include trade payables, short-term and long-term borrowings.

20.4 Financial Management Risks Objectives

The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk. The financial risks are monitored on a timely basis, and are mitigated primarily through the reduction of the Company's exposure to those risks. The Company does not use any special financial instruments to hedge against these risks since such instruments are not in common use in the Republic of Macedonia.

20.5 Market Risk

The Company's activities are exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates.
Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

20.6 Foreign Currency Risk Management

The Company is exposed to foreign currency risk primarily to cash and cash equivalents, as well as to the trade receivable and trade payables denominated in foreign currencies. The Company does not apply any special financial instruments to hedge against these risks since such instruments are not in common use in the Republic of Macedonia.
The carrying amount of the Company's monetary assets and monetary liabilities denominated in foreign currencies is as follows:

NOTES TO THE FINANCIAL STATEMENT
December 31, 2008

20. Financial instruments (continued)

20.6 Foreign Currency Risk Management (Continued)

In thousands of Denars

	Assets		Liabilities	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
EUR	2.032	4.306	4.746	5.114
USD	-	1.135	11.780	13.099
	2.032	5.441	16.526	18.213

Foreign Currencies Sensitivity Analysis

The Company is exposed to USD, as well as to EUR. The following table details the Company's sensitivity to a 10% increase and decrease in Denar against the foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where Denar strengthens 10% against the foreign currencies. For a 10% weakening of Denar against the foreign currencies, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

In thousands of Denars
December 31,

	2008	2007
Profit	(1.449)	(1.277)
Equity	-	-

20.7 Interest Rate Risk Management

The Company is exposed to interest rate risk only to short-term borrowing at variable interest rates. This risk depends on the financial markets and the Company does not have any practical means to mitigate it.

The carrying amount of the financial assets and liabilities at year end was as follows:

In thousands of Denars
December 31,

Financial assets	**2008**	**2007**
Non-interest bearing:		
- Cash and cash equivalents	5.375	6.137
- Trade receivables	14.303	11.649
- Investment in associates	31	31
	19.709	17.817

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

20. Financial instruments (continued)

20.7 Interest Currency Risk Management (Continued)

	In thousands of Denars December 31, 2008	2007
Financial liabilities		
Variable interest rate:		
- Long-term borrowings	699	1.309
Fixed interest rate:		
- Trade payables	1.953	2.500
Non-interest bearing:		
- Trade payables	16.551	20.235
	19.203	24.044

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the Company's exposure to interest rates for the financial instruments at the balance sheet date. For variable rate financial instruments, the analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. A 2 percentage point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 2 percentage point higher and all other variables were held constant, the Company's profit for the year ended December 31, 2008 would decrease by Denar 7 thousand (2007: Denar 13 thousand). For a 2 percentage points decrease the Company's profit for the year ended December 31, 2008 and December 31, 2007 would increase for the same amounts. The Company's sensitivity to the interest rate risk for the year ended December 31, 2008 has decreased due to the decrease in long-term borrowing bearing variable interest rates.

20.8 Credit Risk Management

Credit risk relates to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company deals only with well-known creditworthy counterparties.

When assessing the creditworthiness of its counterparties, the Company uses the publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored enabling to make it possible to minimize the risk of uncollectible receivables to lowest level.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

20. Financial instruments (Continued)

20.8 Credit Risk Management (Continued)

The structure of the trade receivables as of December 31, 2008 is as follows:

In thousands of Denars

	Gross exposure	Allowance for impairment	Net exposure
Undue receivables	7.917	-	7.917
Past due but not impaired receivables	6.386	-	6.386
Past due and impaired	-	-	-
	14.303	-	14.303

The structure of the trade receivables as of December 31, 2007 is as follows:

In thousands of Denars

	Gross exposure	Allowance for impairment	Net exposure
Undue receivables	4.480	-	4.480
Past due but not impaired receivables	7.169	-	7.169
Past due and impaired	-	-	-
	11.649	-	11.649

Past due but not impaired

The ageing structure of the past due but not impaired receivables for the years ended December 31, 2008 and 2007 is as follows:

In thousands of Denars
December 31,

	2008	2007
Up to 30 days	2.679	3.903
31 - 90 days	2.251	891
91 - 180 days	278	824
181 - 365 days	835	591
Over 365 days	343	960
	6.386	7.169

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

20. Financial instruments (continued)

20.9 Liquidity Risk Management

Liquidity and Interest Risk Tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities.

In thousands of Denars
December 31, 2008

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Variable interest rate	10,40%	60	121	527	44	-	752
Fixed interest rate	8,50%	500	1.453	-	-	-	1.953
Non-interest bearing	0%	16.551	-	-	-	-	16.551
		17.111	1.574	527	44	-	19.256

In thousands of Denars
December 31, 2007

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Variable interest rate	9,9%	59	117	484	719	-	1.379
Fixed interest rate	9%	1.250	1.250	-	-	-	2.500
Non-interest bearing	0%	20.235	-	-	-	-	20.235
		21.544	1.367	484	719	-	24.114

20.10 Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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20. Financial instruments (continued)

20.10 Fair Value of Financial Instruments (Continued)

Carrying Amount to fair Value

Carrying amount to fair value for the years ending as of December 31, 2008 and 2007 is as follows:

In thousands of Denars

	December 31, 2008		December 31, 2007	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
- Cash and cash equivalents	5.375	5.375	6.137	6.137
- Trade receivables	14.303	14.303	11.649	11.649
- Investments in associates	31	31	31	31
	19.709	19.709	17.817	17.817
Financial liabilities				
- Trade payables	16.551	16.551	20.235	20.235
- Short-term borrowings	1.953	1.953	2.500	2.500
- Long-term borrowings	699	699	1.309	1.309
	19.203	19.203	24.044	24.044

Assumptions Used in Determining Fair Value of Financial Assets and Liabilities

Considering the fact that sufficient market experience, stability and liquidity do not exist for the purchase and sale of financial assets or liabilities, given that published market information is not readily available for the purposes of disclosure the fair value information of the aforementioned financial assets and liabilities, the Company used the valuation technique using discounted cash flow analyses. Such valuation technique applied interest rate for the financial instruments with similar characteristics in order to provide reliable estimates of prices obtained in actual market. Considering the short-term maturity of the receivables and payables, there is no material discrepancy between their carrying amount and their fair value.

21. Taxation Risk

Macedonian tax legislation is subject to varying interpretations and changes occur frequently. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years.

22. Related party transactions

The transactions with the related parties are stated below.

	In thousands of Denars	
	2008	**2007**
Receivables from related parties:		
- Sapphir doo, Skopje	283	-
Sales to related parties:		
- Sapphir doo, Skopje	1.530	-
Purchases from related parties:		
- Sapphir doo, Skopje	1.160	-

The total compensations paid to the Management and the Governing Board amounts to Denar 3,508 thousand (2007: Denar 2,323 thousand).

23. Post balance sheet events

On October 31, 2008, the Company has concluded a loan agreement with Small Investment Fund, Skopje. According to this agreement, Small Investment Fund, Skopje will provide loan in the amount of USD 60,000 to the Company. The loan will bear interest at the rate of 8% p.a., and will be repayable in four annual installments, following 13 months from the date of the disbursement of the loan. However, if the Company meets or exceeds the agreed financial projections, for any of the years from 2009 through 2012, the Company shall have the right to convert the principal of the loan due for that year in exchange for 0.5% of additional ownership of Small Investment Fund, Skopje in the Company's paid-in capital. The loan amounting to Denar 2,906 thousand, an equivalent of USD 60,000, was disbursed on March 6, 2009.

24. Exchange rates

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies, as of December 31, 2008 and 2007, were as follows:

	December 31, 2008	**December 31, 2007**
USD	43,5610	41,6564
EUR	61,4123	61,2016