

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA” AND ITS SUBSIDIARY COMPANIES

(REGISTRATION NUMBER 40003020121)

2006 ANNUAL REPORT

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

AND INDEPENDENT AUDITORS' REPORT

Saldus, 2006

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Council of joint-stock “Saldus mežrūpniecība”

Chairman of the council:	Jēkabs Feikners (until 06.03.2007)
Vice-chairman of the council:	Alvis Spārns
Members of the council:	Edgars Gailītis Vēsminš Gunvaldis Gunta Zoltnere

From January 1, 2006 until March 31, 2007, there took place changes in the composition of the holding company's council. From March 7, 2007, when Jēkabs Feikners passed away, the vice-chairman Alvis Spārns is the chairman of the council.

Board of joint-stock company “Saldus mežrūpniecība”

Director of the board:	Jānis Bertrāns
Members of the board:	Ivars Feikners Gundars Maurs

From January 1, 2006 until March 31, 2007 there have not happened any changes in the joint-stock company's board.

Joint-stock company “Saldus mežrūpniecība”**Consolidated management report*****2006 economic activity******Description of economic activity within the period of account***

During the period of 12 months in year 2006 holding company “Saldus mežrūpniecība” from its economic activity earned profit of 235 733 Ls after taxes, consolidated profit per one issued share was 0.61 Ls. The consolidated profit is smaller than the profit earned in JSC “Saldus mežrūpniecība” (261 333 Ls) because in reality during the year 2006 companies, which were working with 100% capital of JSC “Saldus mežrūpniecība” did not earn profit. For example, OOO “Салдус” worked without profit, but “Pakuļi Sports Centre” worked with 25 037 Ls losses after taxes. OOO “Салдус” did not earn profit because the company purchased only 50% of the planned amount of sawn logs and managed only 30% of planned logging. The amount of carried out logging differs from the planned amount because logging equipment was not delivered the way it was planned at the beginning of 2006.

Due to improving its production and management processes in 2006 JSC “Saldus mežrūpniecība” received ISO 9001:2000 Quality Management Systems Certificate, ISO 14001:2004 Environmental Management Systems Certificate and OHSAS 18001:1999 Occupational Health and Safety Assessment Certificate. We have been thinking about the competence of our manpower and this is why our employees are offered professional training and we take care of our employees’ material welfare and motivation (for example, payments into pension trust funds, organization of recreation events, etc.)

Important events after the end of the year of account

After the year of account there was finished and on 31.01.2007 put into operation a trade centre and in March there were made investments to modernize our logging equipment. We purchased a new forwarder John Deere 1110D for 154 617 Ls without VAT. In January we purchased a processing line for small pulp, which was delivered to Russia and registered in OOO «Салдус - Лес» thus increasing its core capital for 70 000 Ls. Besides, in accordance with our schedule we bought out the immovable property, needed for sawmill. Total amount of this deal was 319 050 LVL, for which was increased the core capital of OOO «Салдус - Лес».

There have not happened any significant activities since the end of the signing of the consolidated account that might have influenced the financial situation of the company, stated in the consolidated financial account.

Prognosed financial showings for 2007

Strategic plans of JSC “Saldus mežrūpniecība” for the year 2007 are related to maintaining and securing company’s position in Latvia’s timber market and increasing company’s value by optimising its administrative and operational costs and modernizing machinery and logging equipment. JSC “Saldus mežrūpniecība” planned scale of production is as follows: in logging- 245 838 m³ of round logs, in processing- 22 438 m³ of sawn timber and 6 879 m³ of fire logs. Planned turnover is 11 849 379 LVL and planned profit is 383 730 LVL.

Planned turnover in “Pakuļi Sports Centre” is 40 000 LVL and due to the construction of its shooting range and development of its territory the planned loss in 2007 is (33 000) LVL.

We are planning to invest in OOO «Салдус - Лес» 750 000 LVL to purchase logging equipment and to set up a saw-mill there. Besides, we are planning to grant on lease its fixed assets (saw-mills and equipment) to the other Russia-based company OOO «Салдус», which will carry out organisational and managerial processes. Besides, OOO «Салдус», will continue purchasing and exporting to Latvia sawn timber.

Research and possible development

In 2006, in Russia-based companies we were working on recruiting and training company’s management, which would then be responsible for setting up and launching a line for small pulp processing, human resources training and finding new ways of purchasing raw materials in different parts of the Russian Federation. We have been looking for new ways of selling by-products; therefore we have studied local legislation in the fields of forestry and entrepreneurship. In the second half of year 2006 we found a place for our factory and signed its purchase agreement. By taking into consideration our managements’ experience and peculiarities of state forest exploitation in the Russian Federation, we worked out an optimal model of logging. By making planned investments in 2007, we will create all circumstances so that in 2008 Russia- based companies’ economic activity is profitable and we can recover our losses and continue working with planned profitability.

In order “Pakuļi Sports centre” Ltd. could earn profit; we must finish construction of its shooting-range and reconstruction of its building. Then it will be operational and will offer high quality services. Today “Pakuļi Sports Centre” Ltd. own capital is negative (i.e. 18 272) Ls, but we have to take into consideration that the real market value of land, premises and constructions is much higher. Planned re-estimation of fixed assets and land of “Pakuļi Sports Centre” Ltd. in 2007 can bring changes in our balance-sheet.

Consolidated management report (continuation)

Management policy regarding business and financial risks

By distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC “Saldus mežrūpniecība” established new subsidiary companies in the Russian Federation the main economic activity of which will be logging and production of sawn timber. In 2006, its economic activity started ООО «Салдус», but on behalf of ООО «Салдус - Лес» there was concluded a purchase agreement about immovable property (land- 28 000 m² and buildings- 3 600 m²). In future both Russia-based companies will cooperate. Immovable property and other fixed assets, needed for production, will be disclosed in ООО «Салдус - Лес» balance-sheet, but ООО «Салдус» will start the organisation and management of production processes at the same time taking on lease fixed assets from ООО «Салдус - Лес», and will invest its own working capital.

During previous years JSC “Saldus mežrūpniecība” has distributed its risks and invested its financial resources in liquid immovable properties of forest land; their value has been steadily growing. In 2005, JSC “Saldus mežrūpniecība” purchased 100% shares of “Pakuļi Sports Centre” Ltd., the activity of which is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.

In 2005, was purchased land on which in 2006 was built and in 2007 was opened a trade centre; its total area is 2 100 m² (5 blocks of shops). Its economic activity is focused on letting out on hire premises. In future its territory of 1.5 ha will be developed; it is situated in a strategically favourable location in the territory of Saldus town at Rīga-Liepāja highway.

April 14, 2007

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Consolidated profit - loss calculation

		2006	2005	2006	2005
	Note	Ls	Ls	EUR	EUR
Net turnover		8 554 113	9 587 254	12 171 406	13 641 433
Production costs of sold products		(7 857 710)	(8 449 927)	(11 180 514)	(12 023 163)
Gross profit		696 403	1 137 327	990 892	1 618 271
Selling costs		(51 814)	(5 160)	(73 725)	(7 342)
General and administration costs		(301 241)	(167 505)	(428 627)	(238 338)
Other income from economic activity		63 368	53 795	90 165	76 543
Other expenses from economic activity		(51 205)	(128 054)	(72 858)	(182 204)
Profit or loss from economic activity		355 511	890 403	505 847	1 266 929
Net profit from participation in the capital of subsidiary and associated companies			429 787		611 532
Other interest income and the like income		6 192	9 405	8 810	13 382
Other interest payments and the like costs		(70 496)	(53 463)	(100 307)	(76 071)
Profit or loss before extraordinary items and taxes		291 207	1 276 132	414 350	1 815 772
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		291 207	1 276 132	414 350	1 815 772
Company's income tax		(12 450)	(140 642)	(17 715)	(200 116)
Deferred company's income tax		(32 491)	(37 041)	(46 231)	(52 705)
Other taxes		(10 533)	(8 559)	(14 987)	(12 178)
Profit or (loss),		235 733	1 089 890	335 418	1 550 774
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		<i>0,61</i>	<i>2,82</i>	<i>0,87</i>	<i>4,01</i>

This annex, which is on pages 12-32, is an integral part of the account.

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Consolidated balance-sheet

Asset		Assets			
		31.12.2006.	31.12.2005.	31.12.2006.	31.12.2005.
	Note	Ls	Ls	EUR	EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trade marks and the like costs		8 229	11 461	11 709	16 308
Intangible value of the company		132 000	132 000	187 819	187 819
Advanced payments for intangible investments		23 250	25 155	33 082	35 792
TOTAL		163 479	168 616	232 610	239 919
Fixed assets					
Land, buildings and constructions		1 067 250	533 310	1 518 560	758 832
Equipment and mashinery		2 264 470	2 264 033	3 222 051	3 221 429
Other fixed assets		33 854	36 008	48 170	51 235
Unfinished constructions		1 410 819	21 821	2 007 415	31 048
Advance payments for fixed assets		121 423		172 769	-
TOTAL		4 897 816	2 855 172	6 968 964	4 062 544
Long-term financial investments					
Partnership in the capital of related companies				-	-
Loans to related companies				-	-
TOTAL		-	-	-	-
TOTAL LONG-TERM INVESTMENTS		5 061 295	3 023 788	7 201 574	4 302 463
WORKING CAPITAL					
Reserves					
Raw materials, direct materials, auxiliary materials		10 842	24 980	15 427	35 543
Unfinished production		731 236	325 184	1 040 455	462 695
Made production and goods for selling		55 315	14 044	78 706	19 983
Advance payments for goods		77 934	178 227	110 890	253 594
TOTAL		875 327	542 435	1 245 478	771 815
Debtors					
Debts of buyers and customers		429 112	589 214	610 571	838 376
Other debtors		320 300	84 369	455 746	120 046
Expenses of the following periods		6 614	22 975	9 411	32 690
TOTAL		756 026	696 558	1 075 728	991 113
Money and its equivalents					
		87 744	966 491	124 848	1 375 193
TOTAL WORKING CAPITAL		1 719 097	2 205 484	2 446 055	3 138 121
TOTAL ASSETS		6 780 392	5 229 272	9 647 629	7 440 584

This annex, which is on pages 11-32, is an integral part of the account.

Board:

Bertrāns	Jānis Bērtrāns	Jānis Bērtrāns	Garsis Mauss	Garsis Mauss	Gur...
of the board	Chairman of the board	Chairman of the board	Vice-Member of the board	Member of the board	Member of the board

Consolidated balance-sheet (continuation)

		31.12.2006.	31.12.2005.	31.12.2006.	31.12.2005.
	Note	Ls	Ls	EUR	EUR
OWN CAPITAL					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Adjustment reserve of foreign currency		(2)		(3)	-
Other reserves		2 056 620	1 126 512	2 926 307	1 602 882
Retained earnings from the previous year		(7 235)	(4 420)	(10 294)	(6 289)
Retained earnings of the year of account		235 733	1 089 890	335 418	1 550 774
TOTAL		2 674 239	2 601 105	3 805 099	3 701 039
TOTAL OWN CAPITAL		2 674 239	2 601 105	3 805 099	3 701 039
CREDITORS					
Long-term creditors					
Company's deferred income tax		236 819	204 366	336 963	290 787
Long-term loans from credit institutions		1 886 023	173 795	2 683 569	247 288
Financial lease liabilities long-term part		376 171	641 388	535 243	912 613
Deferred incomes long-term part		114 611	130 858	163 077	186 194
TOTAL		2 613 624	1 150 407	3 718 852	1 636 882
Short-term creditors					
Short-term loans from credit institutions		624 579	80 579	888 696	114 654
Financial lease liabilities short-term part		227 826	407 652	324 167	580 037
Advanced payments received from customers		108 458	43 435	154 322	61 802
Debts to suppliers and contractors		380 041	633 638	540 750	901 586
Accrued liabilities		47 612	48 741	67 746	69 352
Debts to related companies			-	-	-
Taxes payable		21 524	125 616	30 626	178 735
Other creditors		66 248	121 314	94 262	172 614
Incomes from following periods short-term part		16241	16240	23 109	23 107
Unpaid dividends from previous years			545	-	775
TOTAL		1 492 529	1 477 760	2 123 677	2 102 663
TOTAL CREDITORS		4 106 153	2 628 167	5 842 529	3 739 545
TOTAL LIABILITIES		6 780 392	5 229 272	9 647 629	7 440 584

This annex, which is on pages 11-32, is an integral part of the account.

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Consolidated cash flow account

I. Cash flow from basic activity	year 2006	2005.gads	year 2006	2005.gads
	Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes	291 207	1 276 132	414 350	1 815 772
a) wear and tear of fixed assets and intangible investments (+)	371 641	310 362	528 798	441 605
b) elimination of fixed assets and intangible investments	37 738	25 177	53 696	35 824
c) formation of accruals (except the accruals for insecure debts)	(1 129)	36 239	(1 606)	51 563
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign	20	52 251	28	74 346
e) incomes from the acknowledgement of financing	(26 096)	(15 303)	(37 131)	(21 774)
f) other interest incomes and the like incomes	(6 192)	(9 405)	(8 810)	(13 382)
g) writing off of long-term financial investments and short-term value of securities		(369 787)	-	(526 159)
h) interest payments and the like costs	70 496	53 435	100 307	76 031
2. Profit or loss before the corrections of impact of changes of	737 685	1 359 101	1 049 631	1 933 827
a) increase of the remainder of debtors' debts (-) or decrease (+)	155 972	(354 053)	221 928	(503 772)
b) increase of the remainder of reserves (-) or decrease (+)	(462 105)	(54 697)	(657 516)	(77 827)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)	(270 333)	696 397	(384 649)	990 884
3 Gross cash flow from basic activity	161 219	1 646 748	229 394	2 343 111
4. Expenditures to interest payers	(70 496)	(53 435)	(100 307)	(76 031)
5. Expenditures for paying company's income tax and immovable property tax	(186 636)	(105 100)	(265 559)	(149 544)
6. Cash flow before extraordinary items	(95 913)	1 488 213	(136 472)	2 117 536
7. Cash flow from extraordinary items				
Net cash flow from basic activity	(95 913)	1 488 213	(136 472)	2 117 536
II. Cash flow from investment activities				
1. Purchase or alienation of shares or parts of related or associated companies	(5 580)	273 787	(7 940)	389 564
2. Granted loans	5 580	10 000	7 940	14 229
3. Purchase of fixed assets and intangible assets	(799 767)	(457 504)	(1 137 966)	(650 970)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.	(1 432 233)	(203)	(2 037 884)	(289)
5. Incomes from selling fixed assets and intangible investments		76 626	-	109 029
6. Received interest	6 192	9 405	8 810	13 382
6. Net cash flow from investing activities	(2 225 808)	(87 889)	(3 167 039)	(125 055)
III. Cash flow from financing activities				
1. Received loans	2 359 819	9 823	3 357 720	13 977
2. Received financing from the EU	9 850	162 401	14 015	231 076
3. Received investment in capital	(2)	203	(3)	289
4. Expenditures to pay back loans	(103 591)		(147 397)	-
5. Expenditures for redemption of a hired fixed asset	(659 940)	(591 867)	(939 010)	(842 151)
6. Disbursed dividends	(163 142)	(96 414)	(232 130)	(137 185)
6. Net cash flow from financing activity	1 442 994	(515 854)	2 053 195	(733 994)
IV. Result of fluctuations of the exchange rate of foreign currency	(20)	2 330	(28)	3 315
V. Net cash flow of the year of account increase (+), decrease (-)	(878 747)	886 800	(1 250 344)	1 261 803
VI. Remainder of money or its equivalents at the beginning of the year of	966 491	79 691	1 375 193	113 390
VII. Remainder of money or its equivalents at the end of the year of	87 744	966 491	124 848	1 375 193

This annex is an integral part of the account on pages 11-32.

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Consolidated account of the changes in own capital

joint-stock company Saldus mežrūpniecība								
	Share capital	Currency fluctuations due to recalculation of foreign	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Total own capital	
	Ls		Ls	Ls	Ls	Ls	Ls	
December 31, 2004	387 136		1 987	751 333		471 965	1 612 421	
							-	
Distribution of the profit of year 2004	-		-	375 179	(4 420)	(375 179)	(4 420)	
Disbursed dividends	-		-			(96 786)	(96 786)	
Profit of the year of account, corrected	-		-			1 089 890	1 089 890	
December 31, 2005	387 136		1 987	1 126 512	(4 420)	1 089 890	2 601 105	
Currency fluctuations due to recalculation		(2)					(2)	
Reserves of recalculation	-		-	-		-	-	
Distribution of the profit of year 2005	-		-	930 108	(2 815)	(927 293)	-	
Estimated dividends	-		-			(162 597)	(162 597)	
Profit of the year of account	-		-	-		235 733	235 733	
December 31, 2006	387 136	(2)	1 987	2 056 620	(7 235)	235 733	2 674 239	

	Share capital	Currency fluctuations due to recalculation of foreign currency	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Total own capital	
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	
December 31, 2004	550 845		2 827	1 069 051		671 546	2 294 269	
							-	
Distribution of the profit of year 2004	-		-	533 832	(6 290)	(533 832)	(6 290)	
Disbursed dividends	-		-			(137 714)	(137 714)	
Profit of the year of account, corrected	-		-			1 550 774	1 550 774	
December 31, 2005	550 845		2 827	1 602 883	(6 290)	1 550 774	3 701 039	
		(3)					(3)	
Reserves of recalculation	-		-	-		-	-	
Distribution of the profit of year 2005	-		-	1 323 424	(4 005)	(1 319 419)	-	
Disbursed dividends	-		-			(231 355)	(231 355)	
Profit of the year of account	-		-	-		335 418	335 418	
December 31, 2006	550 845	(3)	2 827	2 926 307	(10 295)	335 418	3 805 099	

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Annex to the financial statement**1. Corporative information**

Distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC “Saldus mežrūpniecība” established new subsidiary companies in the Russian Federation, which main economic activity will be logging and production of sawn timber. In 2005, JSC “Saldus mežrūpniecība” purchased 100% shares of “Pakuļi Sports Centre” Ltd., which main activity is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2006 consolidated report, hereinafter Holding company.

In the following table is disclosed holding company's share in subsidiary companies:

1. Name of the company	Pakuļu sporta bāze / Pakuļi Sports Centre
Legal status of the company	Limited liability company
Registration number, registration date in commercial register	48503009010 November 21, 2002
Address	Mežvidi, Novadnieku pag. Saldus rajons LV 3801
Main types of business	Hunting and related services. Shooting practice and organization of shooting competitions with hunting weapons
Owner of the company	Joint-stock company Saldus mežrūpniecība, 100%
Year of account	January 1- December 31, 2006
2. Name of the company	Saldus Les
Legal status of the company	Limited liability company (OOO)
Registration number, date, place	1066027046337 October 9, 2006 Russia, Pskov Region
Address	Konnaja 2-214, Pskov, Russia 180007
Main types of business	Logging
Owners of the company	Joint-stock company Saldus mežrūpniecība - 99% Kolosovs Sergejs - 1%
Year of account	January 1- December 31, 2006
3. Name of the company	Saldus
Legal status of the company	Limited liability company (OOO)
Registration number, date, place	1056000426371 December 21, 2005 Russia, Pskov Region
Adrese	Konnaja 2-214, Pskov, Russia 180007
Main types of business	Purchase of timber
Owners of the company	Joint-stock company Saldus mežrūpniecība – 100 %
Year of account	January 1- December 31, 2006

Holding company's consolidated financial statement was confirmed in compliance with the board's _____ and council's _____ decisions. Shareholders of the holding company have rights to make corrections in the financial statement after its publication.

2. Important accounting principles

The following accounting principles were used to prepare the holding company's financial statements:

Principles of preparation of financial statement

Holding company's financial statement is prepared in compliance with the International Financial Reporting Standards (IFRS) of the European Union. The financial statement is prepared in compliance with the Historical Cost Concept Accounting Principle.

Currency and units used in the preparation of the financial statement

In the financial statements the monetary unit is Latvian lat (LS), which is the monetary unit in the Republic of Latvia.

Consolidation

This consolidated financial statement includes financial statement of JSC Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., OOO Saldus Les, and OOO Saldus. Financial statements of subsidiary companies are prepared in the same year of account as the financial statement of the parent company by using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, costs, profit, loss and cash flow of JSC Saldus mežrūpniecība and the companies, which belong to JSC Saldus mežrūpniecība (subsidiary companies), in the way as if JSC Saldus mežrūpniecība and its subsidiary companies were one company, therefore untapped profit, mutual payments, mutually owned shares and other mutual deals between these companies, which belong to the holding company, were excluded. In the accounting of purchases made by subsidiary companies there was used the purchase method. Predominance of purchase costs over the real value of net assets earned in the holding company is accounted as intangible value.

Consolidation of foreign subsidiary companies

When financial showings of foreign subsidiary companies were included in the consolidated financial statements, the holding company's parent company recalculated monetary and inmonetary assets, liabilities, items of income and expenditure of the foreign subsidiary companies as well as credit items by taking into consideration the exchange rate established by the Bank of Latvia on the last day of account. Exchange rate difference, which appears when items of assets and liabilities are shown, are classified as own capital. Consolidation of the financial statements of foreign subsidiary companies is done in accordance with the established consolidation procedures, for example, by excluding mutual deals of the companies that are the part of the holding company.

Changes in the accounting principles

In 2006, the holding company accepted IFRS, amended in 2004, the use of which is obligatory starting from January 1, 2005 or later. Due to the use of these standards, there were not made any significant changes in the principles of accounting in the holding company. In 2006, consolidation was done for the first time as in 2005 the showings of subsidiary companies did not have an important impact on the showings of the parent company.

Use of International Financial Reporting Standards (IFRS):

- IFRS No.1 Giving of financial statement
- IFRS No.2 Reserves
- IFRS No.7 Cash flow accounts
- IFRS No.8 Accounting policies, changes in accounting calculations and errors
- IFRS No.10 Events after the date of balance
- IFRS No.14 Information per segments
- IFRS No.16 Fixed assets
- IFRS No.18 Incomes
- IFRS No.19 Employee allowance
- IFRS No.21 Impact of changes of foreign currencies exchange rate
- IFRS No.23 Payments of loans
- IFRS No.24 Giving information about related parties
- IFRS No.27 Consolidated and separate financial statements
- IFRS No.32 Financial instruments: disclosure and provision
- IFRS No.33 Profit per share
- IFRS No.36 Decrease of the value of assets
- IFRS No.37 Accruals, possible liabilities and possible assets
- IFRS No.38 Intangible assets
- IFRS No.39 Financial instruments: recognition and evaluation

2. Important accounting principles (continuation)

Use of calculation (continuation)

When preparing financial statements, management have to repose on certain calculations and assumptions, which impact the reminders of profit or loss calculations, disclosed in certain financial statements in balance-sheet as well as the amount of possible liabilities. Following events may have an impact on assumptions, which serve as a ground for making respective calculations. Impact of any changes in calculations is shown in financial statements at the time of their determination.

Operations in foreign currency

Currency, used in the holding company's accounting, is lats (Ls), except in OOO Saldus and OOO Saldus Ļes where the used currency is RUB (Russian roubles).

All operations in foreign currencies are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia on the day of corresponding operation. On the last day of the year of account, funds and liabilities in foreign currency are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia. Differences in exchange rates, which occur because of payments made in different currencies, are disclosed in profit- loss calculation in their net value. Regarding the capital of OOO Saldus and OOO Saldus Ļes, conversion of currency, used in these companies, into currency, used in the holding company, is done by taking into consideration the exchange rate, which is valid on the day of balance, but regarding profit or loss items- the exchange rate, which is valid at the end of the year of account. The corrections of revaluation are shown in a separate item of the own capital.

	31.12.2006.	31.12.2005.
USD/ LVL	0,536	0,593
RUB/ LVL	0.0203	0.0206
EUR/ LVL	0,702804	0.702804

Intangible investments

Intangible investments are accounted in their acquisition costs by using linear method, which is amortized during the productive time of the use of assets. If occur any events or changes of circumstances that show that the balance value of intangible investments could be irrecoverable, the corresponding value of intangible investments is reassessed in order to establish the decrease of its value. Losses, which occur due to the decreased of value, are admitted if the balance value of intangible investments exceeds the recoverable amount of money.

Intangible investments contain software licences, intangible value and other intangible investments, which are related with the activity of parent and subsidiary companies of the holding company.

Software licences, used in the holding company, are accounted in their acquisition value by taking away their accumulated amortization.

Amortization is calculated by the use of linear method during the productive time of their use.

Costs, which are related to the maintenance of software, are included in the profit or loss calculation as expenses.

2. Important accounting principles (continuation)*Fixed assets*

Fixed assets are accounted in their initial costs except the accumulated wear and tear and the decrease of their value. Wear and tear of land is not calculated.

Wear and tear is calculated by the use of linear method in their productive time of use.

Buildings, constructions	- 10 years
Equipment and machinery	- 10 years
Other fixed assets	- 5 years
Computing devises and data storage systems, software	- 5 years

Wear and tear is estimated starting from the following month of their putting into operation or their inclusion into economic activity. For each unit of fixed assets, which costs are essential and make the total costs of fixed assets, wear and tear is estimated separately. Costs of the repair of fixed assets are included in the profit or loss statement of the corresponding period where they occurred.

The accounting value of fixed assets is terminated if they are alienated or if there are not expected any benefits from their use in future. Any profit or loss that occurs due to the termination of the acknowledgement of fixed assets (which is calculated as a difference between net incomes from alienation and the balance value of fixed assets) must be included in profit-loss statement in the period when the termination of the acknowledgement of fixed assets occurred.

If there are any events or circumstances indicating that the balance value of fixed assets could not be recovered, the corresponding value of fixed assets is revaluated in order to establish the decrease of their value. If there are any indications that their value might be irrecoverable and if the balance value of assets exceeds the calculated amount, the asset is written-off to its recoverable sum.

Unfinished construction discloses the formation of fixed assets and the costs of unfinished constructions, and it is accounted in its initial value. The initial cost includes construction costs and other direct costs. Wear and tear of unfinished constructions is not calculated while the corresponding assets are not finished and put into operation.

Decrease of the value of assets

At the end of each year of account the holding company verifies if there are any indications that warn about the decrease of the value of assets. If such indications are found and if there must be carried out the annual verification of the decrease of the value of assets, the holding company establishes the recoverable sum of each asset. The recoverable sum of an asset is the biggest sum of its selling value, from which are distracted the costs of its sale and use value. In order to identify the decrease of value, assets are grouped in the lowest possible level for which it is possible to establish separate cash flows (cash generating assets). If the balance of an asset is higher than the recoverable sum, the increased of the value of the asset is admitted and the asset is written off to its recoverable sum. Losses from the decrease of value are shown in profit-loss statement as costs of other economic activity.

Costs of loans

Costs of loans are shown in profit-loss statement at the time of their occurrence in compliance with the basic accounting principle of the accounting standard No. 23.

2. Important accounting principles (continuation)

Leasing

Financial leasing deals, within which all risks and rewards are assigned to the holding company and which result from proprietorship of the leasehold, in the balance are acknowledged as fixed assets for the amount of money, which correspond with the purchase value of the property taken on lease. Financial leasing payments are distributed between financial costs and the decrease of liabilities so that in each period they would secure constant interest rate of the remnants of liabilities. Financial costs are included in profit-loss statement as interest costs.

Leasing of fixed assets, within which all risks resulting from proprietorship are undertaken by the lessor, is classified as operational leasing. Leasing payments within operational leasing are accounted as costs during the whole leasing period and are related to the profit-loss statement during the whole leasing period by the use of a linear method.

Reserves

Unfinished production

Reserves are accounted in their lowest actual cost and net selling value. Actual cost is calculated by the use of the first in first out method (FIFO). Net selling value is the calculated selling price in typical business conditions except the costs, needed to finish production and selling costs.

Materials are accounted in their purchase costs.

Finished and unfinished goods are accounted in their direct material costs and labour costs by adding to them indirect production costs, which include wages, electricity, wear and tear and the like costs of production, calculated during the typical volume of output.

Finished products are accounted in their lowest actual cost or net selling value. Net selling value is the calculated selling price in typical business conditions except the costs needed to finish production and selling costs.

The company assesses on regular basis if the value of reserves has not decreased because of aging or damages. The corresponding losses are included in profit-loss statement as the costs of sold production. When the damaged reserves are destroyed, the value of reserves and the value of corresponding accruals are written off.

Debts of buyers and customers and other debtors

Debts of buyers and customers are accounted and shown in the balance in correspondence with their initial bills except the accruals for insecure debts. Accruals for insecure debts are calculated when it is not likely to recover the whole sum of debt. Debts are written off when their recovery is thought impossible.

Money and its equivalents

Money and its equivalents are the money in bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less.

Share capital

Common shares are classified as own capital. All shares are registered shares and non-materialised.

Profit per share

Profit per share is calculated by dividing the profit of the year of account in accordance with taxes with the weighted average number of shares in circulation in the period of account.

2. Important accounting principles- income acknowledgement (continuation)

Credits and loans

Credits and loans are shown in their initial value. It is estimated by adding to or subtracting from the real value of the amount of loan costs related to the granting/receiving the loan.

Further loans will be shown in their amortized value.

Profit or losses, earned due to amortization, are shown in the profit-loss statement as interest incomes and expenses.

Accruals

Accruals are acknowledged when the holding company has the duty to acknowledge them (legal duty or because there exists such practice), and it is caused by a past event, and there is a probability that in order to meet obligations will be needed an outflow of resources from the holding company, and the plausible enough assessment of the scale of liabilities is possible. If the holding company predicts that expenses needed for building up accruals will be partly or totally paid back, the costs are acknowledged as a separate asset only when it is clear that these expenses will really be paid back. Expenses, which are related to any kind of accruals, in the profit-loss statement are shown by subtracting sums, which are acknowledged for paying back expenses.

Accruals and deferred liabilities

Accruals and deferred liabilities are accounted in the way that incomes and expenditures could be acknowledged at the time of origin.

Income acknowledgement

Incomes are acknowledged if there is a conviction that the holding company is able to gain benefit in the extent that it is possible to identify it. Acknowledging incomes, the following conditions are taken into consideration:

Rendering of services

In this case it mainly means rendering of transport services and services related to timber processing.

Incomes from the rendering of services are acknowledged in accordance with the scale of the rendered services. Incomes from the rendering of services are acknowledged within the period when the services were rendered.

If the outcome related to the rendering of services can not be truthfully estimated, the incomes are acknowledged only of the amount of recovering acknowledged costs.

Sale of goods

Incomes are acknowledged when the holding company has assigned to its customer the most important risks and rewards related to the proprietorship to goods, i.e. when the holding company has delivered goods to its customer and the customer has accepted the goods in line with the provisions of agreement and when there is a conviction about receiving back debtors' debts.

Interest

Incomes are acknowledged within the period when they arise and are included in the profit-loss statement.

Dividends

Incomes are acknowledged when a shareholder has rights to receive them.

Leasing incomes

Leasing incomes from investments in properties are accounted for valid leasing contracts during the whole time of leasing.

2. Important accounting principles- income acknowledgement (continuation)*Taxes**Company's income tax*

The income tax of parent company and subsidiary companies is calculated by applying the established 15% tax rate to the earned income during the corresponding taxation period as it is stipulated by the Tax Law of the Republic of Latvia.

Deferred income tax

Company's deferred income tax, which has resulted from short-term differences by including separate items into tax declarations and into this financial statement, is calculated by the use of a connected method. Deterred assets and liabilities of company's income tax are established on the basis of tax rates, which are applied when short-term differences disappear. The main short-term differences result from the different rates of wear and tear that are applied to fixed assets as well as from certain accruals and tax losses, which are carried forward for the following five years. The asset of company's deterred tax in the financial statement is shown only in the case if its recovery is predictable.

Possible liabilities and assets

In this financial statement possible liabilities are not acknowledged. They are acknowledged as liabilities only if there is a valid possibility that funds will be paid out. Possible assets in this financial statement are not acknowledged; they are shown only when there is a possibility that economic benefits related to the dealing will reach the holding company, and this possibility is probable enough.

Employee benefits

Holding company's parent and subsidiary companies make social insurance payments in the state health, pension and unemployment funds in accordance with the state established rates, which are into force during the year of account and are based on the gross wages. Besides, the parent company makes payments into the private pension plans as well as makes employees' health insurance payments. Parent company does not undertake any additional legal or practical liabilities to make additional payments if the State funded pension scheme or the Private pension plan is not able to meet its obligations towards employees. Payments into social insurance system or pension plans as well as payments into health care system are included in expenses of the same period when the corresponding payment is made. Pension plan expenses and cash flow is equal, and the employer does not account assets or liabilities by the method of accruals.

Connected persons

Connected persons are the subsidiary companies the belong to the holding company's parent company as well as shareholders, who can significantly impact parent company's work, members of the board and council, their closest relatives and also the companies where the above mentioned persons have significant influence or control.

Events after the end of the year of account

In the financial statement are shown the events after the year of account, which give additional information about the financial situation in the holding company on the day of preparing its balance-sheet (adjusting events). If the events after the end of the year of account are not adjusting, they are shown in the notes of financial statement only if they are crucial.

2. Segments of the holding company's activity

								0,702804
	logging		wood processing		Other undividable		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	<i>Ls</i>	<i>Ls</i>	<i>Ls</i>	<i>Ls</i>	<i>Ls</i>	<i>Ls</i>	<i>Ls</i>	<i>Ls</i>
Net turnover	5 150 410	5 621 393	3 355 199	3 903 204	48 502	62 657	8 554 111	9 587 254
Production costs of sold production	(4 741 151)	(4 983 204)	(3 074 700)	(3 378 443)	(41 860)	(88 280)	(7 857 711)	(8 449 927)
Selling costs	(50 777)		(1 037)	(5 160)			(51 814)	(5 160)
General and administration costs	(185 863)	(98 828)	(99 010)	(67 002)	(16 367)	(1 675)	(301 240)	(167 505)
Other incomes/ (expenditures) from economic activity	7 907	(43 812)	5 314	(29 704)	(1 058)	(743)	12 163	(74 259)
Segment's profit	180 526	495 549	185 766	422 895	(10 783)	(28 041)	355 509	890 403
Incomes from participation in the company's capital						429 787	-	429 787
Financial costs, net	(36 739)	(38 426)	(13 258)	(14 835)	(14 307)	9 203	(64 304)	(44 058)
Company's income tax (undivided)					(44 937)	(177 683)	(44 939)	(177 683)
Other taxes	(3 345)	(2 673)	(7 138)	(5 654)	(50)	(232)	(10 533)	(8 559)
Net result	140 442	454 450	165 370	402 406	(70 077)	233 034	235 733	1 089 890
Segment's assets	2 742 052	2 071 833	1 797 391	1 476 738	2 240 949	1 680 701	6 780 392	5 229 272
Segment's liabilities	936 644	730 965	493 610	386 025	5 350 138	4 112 282	6 780 392	5 229 272
	logging		wood processing		Other		Total	
	2 006	2 005	2 006	2 005	2 006	2 005	2 006	2 005
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
Net turnover	7 328 373	7 998 522	4 774 018	5 553 759	69 012	89 153	12 171 403	13 641 433
Production costs of sold production	(6 746 050)	(7 090 460)	(4 374 904)	(4 807 091)	(59 561)	(125 611)	(11 180 515)	(12 023 163)
Selling costs	(72 249)	-	(1 476)	(7 342)	-	-	(73 725)	(7 342)
General and administration costs	(264 459)	(140 620)	(140 879)	(95 335)	(23 288)	(2 383)	(428 626)	(238 338)
Other incomes/ (expenditures) from economic activity	11 251	(62 339)	7 561	(42 265)	(1 505)	(1 057)	17 306	(105 661)
Segment's profit	256 865	705 103	264 321	601 725	(15 343)	(39 899)	505 844	1 266 929
Incomes from participation in the company's capital	-	-	-	-	-	611 532	-	611 532
Financial costs, net	(52 275)	(54 675)	(18 864)	(21 108)	(20 357)	13 095	(91 496)	(62 689)
Company's income tax (undivided)	-	-	-	-	(63 940)	(252 820)	(63 942)	(252 820)
Other taxes	(4 760)	(3 803)	(10 156)	(8 045)	(71)	(330)	(14 987)	(12 178)
Net result	199 831	646 624	235 300	572 572	(99 711)	331 578	335 418	1 550 774
Segment's assets	3 901 588	2 947 953	2 557 457	2 101 209	3 188 583	2 391 422	9 647 629	7 440 584

3. Segments of the holding company's activity (continuation)

The holding company has disclosed information through business segments.

The above table discloses holding company's profit-loss items as well as distribution of assets and liabilities through segments of its activity: holding company's management think that cash flow statement of each segment is not useful.

Description of segments:

Logging

Incomes in this segment of activity arise, mainly, from selling round timber as a result of forest exploitation activities, product transportation within the territory of Latvia, and from forest management services.

Wood processing

Incomes in this segment of activity arise, mainly, from selling sawn timber as a result of production process and from rendering various services related to wood processing.

Other

Received lease payments from letting out on hire company's immovable properties and other incomes related to management.

4. Net turnover through geographical segments.

Since holding company's economic activity mainly is carried out in Latvia and all important company's assets are located in Latvia, the management think that it is not useful to prepare an account on economic activity through geographical segments because incomes from geographical segments do not exceed 10% of total incomes.

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Incomes from sales including	8 029 596	9 317 046	11 425 086	13 256 962
Latvia	7 191 461	8 685 963	10 232 527	12 359 012
Russia	46 692		66 437	
European Union countries	838 135	631 083	1 192 559	897 950
Incomes from rendering of services, including	524 517	270 208	746 320	384 471
Latvia	524 517	270 208	746 320	384 471
	8 554 113	9 587 254	12 171 406	13 641 433

5. Costs of sold products

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Actual cost of sold production				
Wages	899 821	1 261 048	1 280 330	1 794 310
Wear and tear of capital assets	357 470	294 844	508 634	419 525
Purchasing prices of raw materials	1 977 878	3 010 200	2 814 266	4 283 129
Stem tax	3 503 377	2 215 207	4 984 857	3 151 956
Electricity costs	77 821	87 384	110 729	124 336
Security, heating	22 718	14 072	32 324	20 023
Services received outside	985 332	1 508 040	1 402 001	2 145 748
Other costs	33 295	59 132	47 374	84 137
	7 857 711	8 449 927	11 180 516	12 023 163

6. Selling costs

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Other expenses	1 037	5 160	1 476	7 342
Railway and expenses related to customs clearance	50 777		72 249	
	51 814	5 160	73 725	7 342

7. General and administration costs

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Administration costs				
Wages	151 632	73 776	215 753	104 974
Wear and tear of fixed assets	14 172	15 518	20 165	22 080
Communication costs	6 032	4 145	8 583	5 898
Office upkeep costs	66 474	3 832	94 584	5 452
Annual report costs	4 467	2 642	6 356	3 759
Bank services	4 618	2 480	6 571	3 529
Insurance costs	3 457	17 601	4 919	25 044
Legal services	13 507	29 364	19 219	41 781
Travelling allowances	7 696	18 147	10 950	25 821
Administration upkeep	29 186		41 528	0
	301 241	167 505	428 628	238 338

8. Other incomes from economic activity

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Other incomes				
Incomes from PL planning (land)	12 000	11 091	17 074	15 781
Incomes from foreign exchange rate fluctuations	20		28	0
Other incomes	25 252	27 401	35 930	38 988
Deferred incomes	26 096	15 303	37 131	21 774
	63 368	53 795	90 165	76 543

9. Other economic activity costs

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Other expenses				
Losses from PL planning	6 678	36 269	9 502	51 606
Expenses from foreign exchange rate fluctuations		52 252	0	74 348
Donations	5 300	6 014	7 541	8 557
Accruals for insecure debtors	3 843	6 038	5 468	8 591
Other expenses	9 783	20 381	13 920	29 000
Payments into Private pension funds	25 601	7 100	36 427	10 102
	51 205	128 054	72 858	182 204

10. Staff costs

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
<i>Number of employees</i>	<i>181</i>	<i>182</i>		
Total staff costs				
Wages in different jurisdiction	6 752		9 607	
Wages	840 883	1 174 859	1 196 469	1 671 674
Social tax	201 558	175 834	286 791	250 189
	1 049 193	1 350 693	1 492 867	1 921 863
Inter alia;				
Wages involved in production				
Wages in different jurisdiction	3 971		5 650	
Wages	723 812	660 198	1 029 892	939 377
Social tax	173 343	158 233	246 645	225 145
	901 126	818 431	1 282 187	1 164 522
Administration wages				
Wages in different jurisdiction	2781		3 957	
Wages	117 071	55 758	166 577	79 336
Social tax	28 215	13 261	40 146	18 869
	148 067	69 019	210 680	98 205

11. Financial incomes / (expenditures), net

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Received % from balance of account	6 192	9 405	8 810	13 382
	6 192	9 405	8 810	13 382
Paid penalty	152	29	216	41
Paid % for loans	25 867	18 930	36 805	26 935
Paid % for financial leasing	44 477	34 504	63 285	49 095
	70 496	53 463	100 307	76 071

12. Company's income tax

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Company's income tax of the year of account	12 524	140 642	17 820	200 116
	12 524	140 642	17 820	200 116

Company's deferred income tax	32 417	37 041	46 125	52 705
	32 417	37 041	46 125	52 705

In 2006, in compliance with the Enterprise Income Tax Law's Article 14.1, JSC Saldus mežrūpniecība took the possession of the losses of its subsidiary company Pakulī Sports Centre Ltd. the total amount of which was 26350 LVL.

Company's deferred income tax:

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
<i>Liabilities of the company's deferred income tax</i>				
Residual value of fixed assets in accounting (except the value of land, advance payments and unfinished construction)	3 002 692	2 625 664	4 272 446	3 735 983
Residual value of fixed assets needed for taxes	1 376 287	1 214 480	1 958 280	1 728 049
uncovered tax losses				
Holiday accruals	47 612	48 741	67 746	69 352
Temporary difference	1 578 793	1 362 443	2 246 420	1 938 582
<i>Deferred tax liabilities</i>	<i>236 819</i>	<i>204 366</i>	<i>336 963</i>	<i>290 787</i>
<i>Deferred tax asset</i>	-	-	-	-

15% rate is applied to deferred tax calculations. The asset of deferred tax is not disclosed in the balance-sheet as its recovery is not secure.

13. Intangible investments

	Computer software	Intangible value	Advance payments for intangible investments	Total
	Ls	Ls	Ls	Ls
Initial value on 31.12.2005	18 195	132 000	25 155	175 350
2006 Purchase	523		6 000	6 523
2006 Decrease in value	(493)		(7 905)	(8 398)
Initial value on 31.12.2006	18 225	132 000	23 250	173 475
Accrued amortization on 31.12.2005	6 734			6 734
2006 Amortization	3 656			3 656
2006 Decrease in value	(394)			(394)
Accrued amortization on 31.12.2006	9 996	-	-	9 996
Residual value on 31.12.2005.	11 461	132 000	25 155	168 616
Residual value on 31.12.2006.	8 229	132 000	23 250	163 479
Amortization rate (by linear method)	5 gadi			

	Computer software	Intangible value	Advance payments for intangible investments	Total
	EUR	EUR	EUR	EUR
Initial value on 31.12.2005.	25 889	187 819	35 792	249 501
2006 Purchase	744	-	8 537	9 281
2006 Decrease in value	(701)	-	(11 248)	(11 949)
Initial value on 31.12.2006.	25 932	187 819	33 082	246 833
Accrued amortization on 31.12.2005.	9 582	-	-	9 582
2006 Amortization	5 202	-	-	5 202
2006 Decrease in value	(561)	-	-	(561)
Accrued amortization on 31.12.2006.	14 223	-	-	14 223
Residual value on 31.12.2005.	16 308	187 819	35 792	239 919
Residual value on 31.12.2006.	11 709	187 819	33 082	232 610
Amortization rate (by linear method)	5 gadi			

Advance payments for intangible investments are due for the accounting software program. Decrease arose due to writing off costs for the establishment of accounting software program. In 2006, the management of joint-stock company Saldus mežrūpniecība made a decision to stop this project due to its inefficiency. Accrued expenses are written off as expenses of the year of account and are included in profit-loss statement.

Amortization costs are included in the following profit-loss items:

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
General and administration costs	3 656	2 835	5 202	4 034

Holding company's intangible value

On December 31, 2006 company's intangible value was 132 000 LVL due to purchasing "Pakuļi Sports Centre" Ltd., which is 100% joint-stock company's "Saldus mežrūpniecība" subsidiary company. With the aim of inspection we established the retrievable value of "Pakuļi Sports Centre" Ltd. in order to decrease its intangible value. In 2005, a certified estimator estimated that the value of land (20.96 ha), which belongs to "Pakuļi Sports Centre" (at the time of purchase the value of land made 80-90% of company's assets), is 146 000 LVL (i.e. 0,70 Ls/m²). Taking into consideration the fact that the price of land during one and a half years increased 1,5-2 times, the management think that the real value of "Pakuļi Sports Centre" Ltd. on December 31, 2006 increased and exceeds its accounting value. Consequently, there is no decrease of intangible value.

14. Fixed assets

		Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished constructions	Total, except advance payments for fixed assets
		Ls	Ls	Ls	Ls	Ls
Initial value on 31.12.2005.		725 963	3 154 737	82 715	21 821	3 985 236
2006	Purchase	193 992	339 799	14 647	2 239 500	2 787 938
	Liquidity	(4 008)	(142 666)	(10 124)		(156 798)
	Reconstruction*	389 408				389 408
	Put into operation				(850 502)	(850 502)
Initial value on 31.12.2006.		1 305 355	3 351 870	87 238	1 410 819	6 155 282
Accrued wear and tear on 31.12.2005.		192 653	890 704	46 707		1 130 064
2006	Wear and tear	46 452	306 505	15 028		367 985
	Wear and tear of liquid assets	(1 000)	(109 809)	(8 351)		(119 160)
	Regrouping					-
Accrued wear and tear on 31.12.2006.		238 105	1 087 400	53 384	-	1 378 889
Residual value on 31.12.2005.		533 310	2 264 033	36 008	21 821	2 855 172
Residual value on 31.12.2006.		1 067 250	2 264 470	33 854	1 410 819	4 776 393
Rate of wear and tear (linear method)		10 years	10 years	5 years		
		Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished construction	Total, except advance payments for fixed assets
		EUR	EUR	EUR	EUR	EUR
Initial value on 31.12.2005.		1 032 952	4 488 786	117 693	31 048	5 670 479
2006	Purchase	276 026	483 490	20 841	3 186 522	3 966 879
	Liquidity	(5 703)	(202 995)	(14 405)	-	(223 103)
	Reconstruction*	554 078	-	-	-	554 078
	Put into operation	-	-	-	(1 210 155)	(1 210 155)
Initial value on 31.12.2006.		1 857 353	4 769 281	124 128	2 007 415	8 758 178
Accrued wear and tear 31.12.2005.		274 121	1 267 358	66 458	-	1 607 935
2006	Wear and tear	66 095	436 117	21 383	-	523 595
	Wear and tear of liquid assets	(1 423)	(156 244)	(11 882)	-	(169 547)
	Regrouping	-	-	-	-	-
Accrued wear and tear on 31.12.2006.		338 793	1 547 231	75 959	-	1 961 983
Residual value on 31.12.2005.		758 832	3 221 429	51 235	31 048	4 062 544
Residual value on 31.12.2006.		1 518 560	3 222 051	48 170	2 007 415	6 796 194
Rate of wear and tear (linear method)		10 years	10 years	5 years		

15. Unfinished construction and advance payments for fixed assets

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
In year 2006, was reconstructed and put into operation the administrative building of joint-stock company Saldus mežrūpniecība	388 108		552 228	
Piece of land added to the existing property	1 300		1 850	
<i>*reconstruction total:</i>	<i>389 408</i>		<i>554 078</i>	
Shooting range and recreational complex Pakuļi Sports Centre Lt	77 872	1 792	110 802	2 550
Immovable property in Russia		18 927		26 931
Trading centre	758 432	1 102	1 079 152	1 568
Repairs shop	396 069		563 555	
Sawing line for small pulp	138 300		196 783	
Sorting line for dry lumber	40 146		57 123	
<i>total unfinished construction objects:</i>	<i>1 410 819</i>	<i>21 821</i>	<i>2 007 415</i>	<i>31 048</i>
Immovable property in Russia	113 253		161 145	
Trading centre	8 170		11 625	
<i>total advance payments for fixed assets</i>	<i>121 423</i>		<i>172 769</i>	

16. Reserves

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Materials, spare parts, inventory	10 842	24 980	15 427	35 543
Round timber in forest	338 581	96 719	481 757	137 619
Round timber at roads and in workshops	371 348	149 021	528 381	212 038
Sawn timber	21 307	79 444	30 317	113 039
<i>total unfinished production:</i>	<i>731 236</i>	<i>325 184</i>	<i>1 040 455</i>	<i>462 695</i>
Finished production	55 315	14 044	78 706	19 983
Advance payments for goods	77 934	178 227	110 890	253 594

On 31.12.2006, carrying out inventarization in the holding company, non-liquid reserves were not found.

3. Debts of buyers and customers

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
For transport services	25 367	68 717	36 094	97 775
For lease of immovable property and equipment	4 790	1 112	6 816	1 582
For timber	464 927	581 629	661 532	827 584
Other services	120	5	171	7
total debtors' debts	495 204	651 463	704 612	926 948
accruals for insecure debtors	66 092	62 249	94 040	88 572

In 2006, balances of debtors' debts in the balance-sheet are disclosed in their net value except the accruals for insecure debts, which make 3843 Ls (5468 EUR); in 2005, 6038 Ls (8591 EUR) from the accounting value of these debts.

Accruals for insecure debts were made after estimating the economic activity and financial stability of some customers and by taking into account settlements of their debts in line with the concluded agreements and possibilities to recover them.

Accruals were made for the debtors who 2 years in turn do not respond to collation deeds and are not found in their given addresses of residence as well as for the debtors who are going through insolvency (reference from CR).

18. Other debtors

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Deferred VAT	7 859	2 079	11 182	2 958
Overpaid company's income tax	89 549		127 417	
Overpaid VAT	193 502	79 189	275 329	112 676
VAT paid in advance on the boarder	1 095	4	1 558	6
Overpaid URN	252	116	359	165
Other debtors	162	1 856	231	2 641
Advance payment to customs for the equipment carried inwards	26 822		38 165	
Advance payments for services	1 059		1 507	
Advance paymnts to accountable persons		1 125		1 601
Total debtors	320 300	84 369	455 746	120 046

19. Expenses of the coming periods

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Insurance	5 976		8 503	
Transaction account		17 000		24 189
Directorates-general	638	5 975	908	8 502
Total expenses of the coming periods	6 614	22 975	9 411	32 690

20. Money and its equivalents

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Time deposits*		953 716		1 357 016
Account money	87 403	11 373	124 363	16 182
Cash money	341	1 402	485	1 995
<i>Total other debtors</i>	<i>87 744</i>	<i>966 491</i>	<i>124 848</i>	<i>1 375 193</i>

* Interest payments on bank deposits are calculated by using variable interest rates, established by the bank and by taking into account the reminders in bank accounts. Short-term investments are made for different periods starting from one day to one month and depending on how much money the holding company needs. Interest on short-term investments is calculated in accordance with the corresponding short-term investment rates.

20. Share capital, reserves and profit per share

Changes in share capital and distribution of shares are disclosed as follows:

	%	year 2006 Ls	year 2006 EUR
Closed issue of shares			
SEZ Laskana Ltd.	26	100 655	143 219
Saldus Forest Industry Enterprise Ltd.	27	104 489	148 674
Physical persons of the Republic of Latvia	19	73 492	104 570
Public offering shares *	28	108 500	154 382
Total:	100	387 136	550 845
	2005.12.31	387 136	550 845
	2006.12.31	387 136	550 845

* There are 108 500 public offering shares the holder and administrator of which is joint-stock company Latvian Central Depository thus these shares are available for market.

All shares are signed, issued and fully paid-up.

The holding company calculates profit per share by dividing profit of the year of account- 235 733 Ls (in 2005 - 1 089 890 Ls) by the weighted average number of shares per year- 387 136 (in 2005 it was 38 7136).

Nominal value of each share is 1 Latvian lat.

In line with the statutes, profit, which remains after paying out dividends and including in retained reserves, is included in other reserves and used for the further development of the holding company's parent company.

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Profit of the year of account	235 733	1 089 890	335 418	1 550 774
Number of shares 31.12.	387 136	387 136	550 845	550 845
<i>Main per share profit per year</i>	<i>0.61</i>	<i>2.82</i>	<i>0.87</i>	<i>4.01</i>

21. Borrowings from credit institutions

	Existing % rate	Payback date	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Long-term:						
JSC Hansabanka	6 mon.Euribor + 1.5-2%	1 year and more	102 403	173 795	145 706	247 288
JSC Hansabanka	3 mon.Euribor + 0.9-1.2%	1 year and more	617 182		878 171	
JSC Nordea banka	3 mon.Euribor + 0.8-1.2%	1 year and more	1 055 478		1 501 810	
JSC Hansabanka	3 mon. Euribor + 0.9%	1 year and more	110 960		157 882	
			1 886 023	173 795	2 683 569	247 288
Short-term:						
JSC Hansabanka	3 mon.Rigibor + 1.5%	up to 12 mon.	374 358		532 663	
credit line						
JSC Nordea banka	3 mon.Euribor + 0.8-1.2%	up to 12 mon.	50 602		72 000	
JSC Hansabanka	6 mon.Euribor + 1.5-2%	up to 12 mon.	64 829	80 579	92 243	114 654
JSC Hansabanka	3 mon.Euribor + 0.9-1.92%	up to 12 mon.	5 840		8 310	
JSC Hansabanka	3 mon.Euribor + 0.9-1.2%	up to 12 mon.	128 950		183 479	
			624 579	80 579	888 696	114 654

22. Financial leasing liabilities and other borrowings

	Existing % rate	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Long-term:					
Hanza Iizings Ltd.	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	235 300	314 633	334 802	447 682
Nordea Iizings Ltd.	6 mon. Libor +1.5-2.25%;6 mon. Euribor+1.2%	119 076	305 185	169 430	434 239
Hanza Iizings Ltd.	3 mon. Rigibor+0.8-1.92%	225		320	
Other exceptions		21 570	21 570	30 691	30 691
		376 171	641 388	535 243	912 613
Short-term:					
Hanza Iizings Ltd.	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	137 264	280 099	195 309	398 545
Nordea Iizings Ltd.	6 mon. Libor+1.5-2.25%	87 100	127 553	123 932	181 492
Hanza Iizings Ltd.	3 mon. Rigibor+0.8-1.92%	3 248		4 621	
Other borrowings		214		304	
		227 826	407 652	324 167	580 037

22. Taxes due

	05.12.31	Paid in 2006	Calculated in 2006	06.12.31
	Ls	Ls	Ls	Ls
Company income tax	72 298	180 100	18 253	(89 549)
VAT	(79 189)	684 275	569 962	(193 502)
VAT on the boarder	(4)	2 139 378	2 138 287	(1 095)
Individual income tax	30 251	187 596	171 313	13 968
Obligatory state social insurance payments	23 064	296 288	276 859	4 112
Natural resource tax	(9)	636	1 037	392
Immovable property tax	(947)	6 551	10 549	3 051
URN	(112)	662	523	(251)
	EUR	EUR	EUR	EUR
Company income tax	102 871	256 259	25 972	(127 417)
VAT	(112 676)	973 636	810 983	(275 329)
VAT on the boarder	(6)	3 044 061	3 042 508	(1 558)
Individual income tax	43 043	266 925	243 756	19 875
Obligatory state social insurance payments	32 817	421 580	393 935	5 851
Natural resources tax	(13)	905	1 476	558
Immovable property tax	(1 347)	9 321	15 010	4 341
URN	(159)	942	744	(357)

In compliance with the existing tax legislation requirements in the Republic of Latvia, company's income tax is paid in advance. Thus, after a year of account when the actual tax is calculated the due tax or tax overpayment is established.

23. Other liabilities

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Reward for work	59 445	112 049	84 583	159 431
Payments into private pension funds	6 803	9 265	9 680	13 183
	66 248	121 314	94 262	172 614

24. Accrued liabilities

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Reserves for vocations	47 612	48 741	67 746	69 352
	47 612	48 741	67 746	69 352

25. Coming periods income

	year 2006 Ls	year 2005 Ls	year 2006 EUR	year 2005 EUR
Long-term:				
Project No. 124000041	79 705	90 958	113 410	129 422
Project No.04/415034/0002/023	34 906	39 900	49 667	56 773
	114 611	130 858	163 077	186 194
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No.04/415034/0002/023	4 988	4 987	7 097	7 096
	16 241	16 240	23 109	23 107

26. Prospective nature protection expenses

Holding company's basic economic activity is timber production. Sawn timber is wrapped in polyethylene and then delivered to buyers. In order to guarantee good quality, environmentally friendly economic activity and to lessen ecological and financial risks, related to both pollution and serious penalty payments, we have concluded an agreement with Zaļā josta Ltd. (*in English green Belt Ltd*) about collection, transportation, recycling and regeneration of used packaging in line with the requirements, established by the normative acts of environment protection. Besides, we plan and organize such activities. Carrying out technical maintenance of our equipment, we replace and change different oil filters and oils. They are stored in our company in special places and collected by BAO Ltd. about which there is concluded a separate agreement on collection of hazardous waste. Thus the holding company complies with all requirements related to the environment protection, established by the legislation, and to the utmost lessens harmful influence towards the environment. In this way the company significantly reduces possible losses, inter alia, natural resource tax, expenses caused by unpredicted impact on the environment and lessening possible ecological risks in all its objects.

27. Dealings with associated persons

There have not been issued any guarantees in order to secure the claims of debtors and creditors of associated persons. At the end of the year of account the company has not made any accruals for insecure debts related to associated persons.

In this financial statement, companies Pakuļi Sports Centre Ltd., OOO Saldus and OOO Saldus Ļes, which belong to the holding company's parent company Saldus mežrūpniecība, are considered as related companies to the holding company's parent company. Besides, significant shareholders of joint-stock company Saldus mežrūpniecība, such as SEZ Laskana Ltd. and Saldus Forest Industry Enterprise Ltd., are considered as associated persons to the holding company.

During the year of account JSC Saldus mežrūpniecība has written out consignment bills of 360 653 Ls (in 2005- 1 537 491 Ls) to SEZ Laskana Ltd. for delivered timber and 67 156 Ls (in 2005- 26 738) for woodchips and cuttings. In joint-stock company's Saldus mežrūpniecība balance-sheet item "Debts of buyers and debtors" in 2006 there is a reminder of 17 388 Ls (in 2005- 15 485 Ls).

During the year of JSC company Saldus mežrūpniecība has written out consignment bills of 1 365 Ls (in 2005- 48 Ls) to SEZ Laskana Ltd. for delivered timber, 24 766 Ls (in 2005- 26 211 Ls) for rendered services, 245 Ls (in 2005 there was not a remainder of liabilities) for premises rental, 18 404 Ls (in 2005- 21 107 Ls) for spare parts and other rendered services. In joint-stock company's Saldus mežrūpniecība balance-sheet item "Debts of buyers and debtors" in 2006 there is a reminder of 5227 Ls (in 2005- 1438 Ls).

During the year of account JSC Saldus mežrūpniecība has written out consignment bills of 2089 Ls (in 2005 there was not a remainder of liabilities) to Pakuļi Sports Centre Ltd. for the rental of shooting equipment. In joint-stock company's Saldus mežrūpniecība balance-sheet item "Debts of buyers and debtors" in 2006 there is a reminder of 2089 Ls (in 2005 there was not a remainder of liabilities).

During the year of account SEZ Laskana Ltd. has written out consignment bills of 68 258 Ls (in 2005- 87 972 Ls) to JSC Saldus mežrūpniecība for sales of round timber, and 1788 Ls (in 2005- 19 140 Ls) for rendering other services. In joint-stock company's Saldus mežrūpniecība balance-sheet item "Debts to buyers and contractors" in 2006 there is not a reminder a remainder of liabilities (in 2005- 28 774 Ls).

During the year of account Saldus Forest Industry Enterprise Ltd. has written out consignment bills of 257 751 Ls (in 2005- 480 864 Ls) to JSC Saldus mežrūpniecība for the sales of round timber, 75 191 Ls (in 2005- 27 718 Ls) for timber related services, and 2 397 Ls (in 2005- 9 146 Ls) for rendering of other services and materials.

In joint-stock company's Saldus mežrūpniecība balance-sheet item "Debts to buyers and contractors" in 2006 is shown a reminder of 116 488 Ls (in 2005- 102 223 Ls).

During the year of account OOO Saldus has written out consignment bills of 128 349 Ls (in 2005 cooperation was not started) to JSC Saldus mežrūpniecība for the delivery of round timber. In 2006, JSC Saldus mežrūpniecība made an advance payment of 219 280 Ls for the delivery of round timber as a result of which in the balance-sheet of JSC Saldus mežrūpniecība there is shown an advance payment of 90 931 Ls. In the consolidated balance-sheet this result is excluded.

In 2005, was purchased a subsidiary company Pakuļi Sports centre Ltd. for 146 000 Ls. From this purchase in the balance-sheet of JSC Saldus mežrūpniecība develops intangible value of 132 000 Ls (see Annex No.13 Intangible investments).

At the end of year 2005 and the beginning of year 2006, in Pskov Region of the Russian Federation were founded two subsidiary companies- OOO Saldus, which investment in the capital makes 5162 Ls, and OOO Saldus Ļes , which investment in the capital makes 205 Ls. Both companies will be engaged in logging and wood processing. There is concluded an agreement about the purchase of an immovable property- buildings, which are in unfinished state, where will be placed a wood processing line, bought in Finland. The immovable property, the area of which is 2.8 ha and on which there are buildings with the total under-roof area of 3600 m², was purchased for 15 064 000 RUB (there is granted a loan of 170 276 Ls, which in joint-stock company's Saldus mežrūpniecība balance-sheet was disclosed in the item "Loans to related companies") in ¼ of which is planned to locate a processing line, which was purchased for 138 000 Ls (see Annex No. 15 Unfinished construction).

During the year of account JSC Saldus mežrūpniecība granted a loan of 85 672 Ls (in 2005- 10 000 Ls) to its subsidiary company Pakuļi Sports Centre Ltd. to improve its territory, of which 58 672 Ls were returned in 2006. From the holding company's balance is excluded the remainder of liabilities of 37 000 Ls (in 2005- 10 000 Ls), which is disclosed in the balance-sheet of JSC Saldus mežrūpniecība in the item "Loans to related companies".

28. Financial instruments

The most important financial instruments of the holding company are granted/received short-term loans, money and short-term deposits and financial leasing. The main task of these financial instruments is to secure financing of the holding company's economic activity. The holding company comes into contact with several other financial instruments, such as, debts of buyers and customers and other debtors, debts to suppliers and contractors and other creditors which result from its economic activity.

Financial risks

Main financial risks, which are related to the holding company's financial instruments, are credit risk, currency risk, interest rate risk and liquidity risk.

Credit risk

The holding company and its parent company are subjected to the credit risk, which results from debts of buyers and customers and long-term and short-term loans.

The holding company controls its credit risks by constantly evaluating customers' history of paying back their debts and by establishing crediting conditions for every customer individually. Besides, the company constantly monitors reminders of debtors' debts to reduce the risks of irrecoverable debts. The holding company does not have significant concentration of credit risks towards a separate partner or a group of partners.

Foreign currency risk

The holding company's financial assets and liabilities, which are subjected to the foreign currency risk, include money and its equivalents, debts of buyers and customers, advance payments for construction, short-term loans, debts to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The holding company uses financial instruments to administer the risk from currency fluctuations.

Interest rate risk

The holding company is subjected to the interest rate risk, which mainly are borrowings from credit institutions and financial leasing companies. Holding company's management think that on December 31, 2006 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

Liquidity risk

The holding company controls its liquidity risk by securing relevant financing, by using credit lines and credits offered by banks and its parent company, by planning how it will pay back its debts to suppliers, by working-out and analysing the future cash flow from existing and planned credits, as well as by paying interest for the loans. The budget system, which is successfully used by the holding company, finely helps control liquidity risk management.

Real value

All financial assets and financial liabilities of the holding company, which are not disclosed in their real value, i.e. the balance value of money, debtors, other debtors, received and granted loans, debts to suppliers and contractors and other debts roughly corresponds with their real value.

29. Events after the end of the year of account

As it was mentioned in the management statement, in the period of time from the last day of the year of account until the day of signing this financial statement there have not occurred any events as a result of which should have been made any corrections or explanations in this financial statement.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Joint-Stock Company "SALDUS MEŽRŪPNIECĪBA"

Report of the Financial Statements

We have audited 2006 consolidated financial statements of Joint-Stock Company "SALDUS MEŽRŪPNIECĪBA" and its subsidiary (hereinafter-the Group), which are set out on pages 7 to 32 of the accompanying 2006 financial statements and which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year the ended a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by EU. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation on financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion of these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU.

Report on Compliance of the Management report

We have read the Management Report set out on pages 5 to 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the consolidated financial statements for 2006.

Certified auditors' company Pagrabnieces Auditoru Birojs, Ltd
Audit company License No.8

Nellija Pagrabniece
Certified auditor Certificate No.87
Rīga, 14.04.2007