

Joint-stock Company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

Saldus

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***Joint-stock company "Saldus mežrūpniecība"
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Information about the Holding company

Name of the company	"Saldus mežrūpniecība" [<i>Saldus Timber Industry</i>]
Legal status of the company	Joint-stock company
Registration number, date and place	000302012, August 26, 1991, Riga
Address	Mežvidi, Novadnieki Local Community, Saldus Region LV-3801
Main types of business activities	Forestry, timber processing and services related to it, sawing, etc.
Names, surnames and positions of the members of the board of directors	Jānis Bertrāns, chairman of the board of directors Ivars Feikners, manager of the department for forest resources Gundars Maurs, manager of the financial department
Names, surnames and positions of the members of council	Jēkabs Feikners, Saldus MRU Ltd., chairman of the board of directors Alvis Spārns, Joint-stock company "Saldus Timber Industry", cruiser Gunta Zoltnere, Joint-stock company "Saldus Timber Industry", auditor Gunvaldis Vēsmiņš, "Laskana" Ltd., president Edgars Gailītis, Saldus MRU Ltd., foreman
Year of account	January 1 - December 31, 2006
Name and address of the auditor	Nelliņa Pagrabniece Sworn auditor (Certificate No 87, issued by LZRA) Pagrabniece Auditor's Bureau Ltd. Licence of Commercial Company No 8 Hospitāļu Street 8, Riga LV-1013 Latvia

Joint-stock company "Saldus mežrūpniecība"
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Information about the Subsidiary companies

1. Name of the company	Pakuļi Sports Centre
Legal status of the company	Limited liability company, Ltd.
Registration in the Commercial register number and date	48503009010 November 21, 2002
Address	Mežvidi, Novadnieki Local Community, Saldus Region LV-3801
Main types of business activities	Huntsmanship and related services. Organizing of training and shoot with hunting shotguns.
Owner of the company	Joint-stock company "Saldus mežrūpniecība", 100% of equity
Year of account	January 1 - December 31, 2006
2. Name of the company	Saldus Les
Legal status of the company	Limited liability company, Ltd.
Registration number, date and place	1066027046337 October 9, 2006 Pskov region, Russia
Address	Konnaja 2-214, Pskov, Russia 180007
Main types of business activities	Forest exploitation
Owners of the company	Joint-stock company "Saldus mežrūpniecība", 99 % of equity Kolosovs Sergejs - 1% of equity
Year of account	January 1 - December 31, 2006
3. Name of the company	Saldus
Legal status of the company	Limited liability company, Ltd.
Registration number, date and place	1056000426371 December 21, 2005 Pskov region, Russia
Address	Konnaja 2-214, Pskov, Russia 180007
Main types of business activities	Timber processing and procurement
Owners of the company	Joint-stock company "Saldus mežrūpniecība", 100% of equity
Year of account	January 1 - December 31, 2006

***Board report on carried out activities for the period of 12 months year 2006 as the part
of the consolidated report***

By carrying out the distribution of risks in the field of forest industry among countries and among different fields of activity, the joint-stock company "Saldus mežrūpniecība" in 2005 founded a subsidiary company in the Russian Federation, which main activities lie in forest industry and wood processing, also 100% shares of "Pakuļi Sports Centre" Ltd. were purchased, which main activity lies in sport and recreation and which is situated in a very good location with a significant immovable property.

The consolidated profit of the joint-stock company "Saldus mežrūpniecība" for the period of 12 months year 2006 from its economic activities after taxes is 262 925, which is less than the profit gained only from economic activity of the joint-stock company "Saldus mežrūpniecība" because, in fact, for the entire year 2006 companies ООО «Салдус», which has been 100% working on the capital of the joint-stock company "Saldus mežrūpniecība", did not gain profit; "Pakuļi Sports Centre" Ltd. worked with losses. ООО «Салдус» did not gain profit because the company purchased only 50% of the planned amount of fir saw timber and carried out 30% of the planned logging activities. It happened due to lack of logging equipment, which was not supplied as it had been planned at the beginning of 2006.

In 2006, we were working on development and training the management group in Russia whose responsibility in 2007 is to assemble and put into operation a line for minute wood processing. The trained personnel are looking for opportunities to purchase raw materials in different places of the Russian Federation. Also, we were looking for possibilities to sell sawing by-products. Besides, we explored the local legislation in the fields of forest industry and entrepreneurship. At the end of this year we found a place for the Russia-based company and concluded a purchase contract. By taking into consideration different specifications of the use of state forests, we have worked out best forest industry model; we took part in a tender for long-term forest lease, but, unfortunately, unsuccessfully. In 2007, by carrying out prior planned investments in prior planned time, we will create circumstances so that in 2008 the economic activity in the Russian Federation is profitable and return losses from previous periods and continue work with prior planned profitability.

In order "Pakuļi Sports Centre" Ltd. earned profit, in 2007 we have to finish the construction of shooting-gallery, carry out the reconstruction of the recreation building so that later it could be used as a recreation place. Today the equity of "Pakuļi Sports centre" Ltd. is - 18 000 LVL, but we have to take into consideration that the actual market value of the land, buildings and unfinished buildings is much higher. Re-estimation of fixed assets in 2007 may bring changes in balance.

From the end of accounting period to the time of signing the consolidate report there have not happened any significant events that might have affected the financial situation of company that is stated in the financial report.

Board:
February 28, 2007

Statement about the responsibility of management

Management of the company is responsible for developing financial statements, which are based on initial accounting for each accounting period and faithfully reflect financial status of the company at the end of an accounting period, as well as on the results of its activity and cash flow for the period.

Management verifies that when the report for the period, which ends on December 31, 2005, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

Management is responsible for keeping relevant accounting records, for maintaining company's assets and for preventing deception and ignominy.

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

Profit and loss account for the year 2006

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No	Name of parameter	Notes	year 2006	year 2005
1.	Net turnover		8555881	9587254
2.	Production costs of the sold products		7835622	8449927
3.	Production costs of the sold products		720259	1137327
4.	Selling costs		64876	5160
5.	Administration costs		280048	167505
6.	Other income from company's economic activities		36566	53795
7.	Other costs from company's economic activities		49502	128054
8.	Income from participation in capitals of subsidiary companies and as			429787
9.	Income from securities and loans, which have made long-term inves			
10.	Other interest income and the like income		6193	9405
11.	Long-term financial investments and short-term writing off of the val			
12.	Interest payments and the like costs		77523	53463
15.	Profit or loss before extraordinary items and taxes		291069	1276132
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		291069	1276132
19.	Company's income tax		17098	140642
20.	Deferred income tax of the company			37041
21.	Other taxes		11046	8559
22.	Profit or loss of the year of account (net income)		262925	1089890

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

EUR in accordance with exchange rate 0.702804

No	Name of parameter	Notes	year 2006	year 2005
1.	Net turnover		12173922	13641434
2.	Production costs of the sold products		11149085	12023163
3.	Gross profit or loss		1024837	1618271
4.	Selling costs		92311	7342
5.	Administration costs		398472	238338
6.	Other income from company's economic activities		52028	76543
7.	Other costs from company's economic activities		70435	182204
8.	Income from participation in capitals of subsidiary companies			611532
9.	Income from securities and loans, which have made long-term investments			
10.	Other interest income and the like income		8813	13382
11.	Long-term financial investments and short-term writing off			
12.	Interest payments and the like costs		110305	76071
15.	Profit or loss before extraordinary items and taxes		414155	1815773
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		414155	1815773
19.	Company's income tax		24328	200116
20.	Deferred income tax of the company			52705
21.	Other taxes		15718	12178
22.	Profit or loss of the year of account (net income)		374109	1550774

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

Consolidated Balance-sheet on December 31, 2006

		<u>Ls</u>	
Assets	Notes	year 2006	year 2005
Long-term investments			
I Intangible investments			
2. Concessions, patents, licences, trademarks and similar rights		8229	11461
3. Other intangible investments		299	
4. Intangible value of the company		132002	132000
5. Advance payments for intangible investments		29250	25155
Intangible investments in total		169780	168616
II Fixed assets			
1. Land, premises, buildings, perennial greenery		1067250	533310
3. Equipment and machinery		2275613	2268212
4. Other fixed assets and inventory		23531	33621
5. Establishment of fixed assets and costs of unfinished co		1384855	20029
6. Advance payments for fixed assets		142027	
Fixed assets in total		4893276	2855172
III Long-term financial investments			
Long-term financial investments in total		0	0
Long-term financial investments in total		5063056	3023788
Current assets			
I Stocks			
1. Raw materials, direct materials and auxiliary materials		16019	24980
2. Unfinished products		731300	325184
3. Complete products		8921	14044
5. Advance payments for goods		63786	178227
Stocks in total		820026	542435
II Debts of debtors			
1. Debts of buyers and customers		438444	589214
4. Other debtors		314284	84369
7. Costs of the next periods		19423	22975
Debtors in total		772151	696558
III Securities and participation in capitals			
Securities and participation in capitals in total		0	0
IV Funds (in total)		87967	966491
Current assets in total		1680144	2205484
Total sum of assets		6743200	5229272

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

EUR in accordance with exchange rate 0.702804

<u>Assets</u>	<u>Notes</u>	<u>year 2006</u>	<u>year 2005</u>
Long-term investments			
I Intangible investments			
2. Concessions, patents, licences, trademarks and similar rights		11709	16308
3. Other intangible investments		425	
4. Intangible value of the company		187822	187820
5. Advance payments for intangible investments		41619	35792
Intangible investments in total		241575	239920
II Fixed assets			
1. Land, premises, buildings, perennial greenery		1518560	758832
3. Equipment and machinery		3237906	3227375
4. Other fixed assets and inventory		33482	47838
5. Establishment of fixed assets and costs of unfinished constr		1970471	28499
6. Advance payments for fixed assets		202086	
Fixed assets in total		6962505	4062544
III Long-term financial investments			
Long-term financial investments in total		0	0
Long-term investments in total		7204080	4302464
Current assets			
I Stocks			
1. Raw materials, direct materials and auxiliary materials		22793	35543
2. Unfinished products		1040546	462695
3. Complete products and goods for sale		12693	19983
5. Advanced payment for goods		90759	253594
Stocks in total		1166791	771815
II Debts of debtors			
1. Debts of buyers and customers		623850	838376
4. Other debtors		447186	120046
7. Costs of the next periods		27636	32690
Debtors in total		1098672	991112
III Securities and participation in capitals			
Securities and participation in capitals in total		0	0
IV Funds (in total)		125166	1375193
Current assets in total		2390629	3138120
Total sum of assets		9594709	7440584

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

Ls

Liabilities	Notes	year 2006	year 2005
I Own capital			
1. Stock or share capital (fixed capital)		387136	387136
2. Stock (share) increase of issue price		1987	1987
4. Reserves:			
d) other reserves		2056620	1126512
Reserves in total		2056620	1126512
5. Retained earnings			
a) retained earnings from previous years		-7235	-4420
b) retained earnings of the year of account		262925	1089890
Retained earnings in total		255690	1085470
Own capital in total		2701433	2601105
II Accruals			
2. Accruals for predictable taxes		188	
Accruals in total		188	0
III Accruals in total			
I Long-term debts			
1. Deferred taxation liabilities		204366	204366
3. Deferred taxation liabilities		1935628	173795
4. Other loans		376392	641388
11. Deterred income		139723	130858
Ilgttermiņa parādi kopā		2656109	1150407
II Long-term debts in total			
3. Loans from credit institutions		578448	80579
4. Other loans		224822	407652
5. Upfront payments received from customers		59969	43435
6. Debts to suppliers and contract work		368103	633638
7. Accrued liabilities		48856	48741
10. Taxes and social security payments		21807	125616
11. Other creditors		66240	121314
12. Deterred income		17225	16240
14. Unpaid dividends from previous years			545
Short-term debts to creditors in total		1385470	1477760
Creditors in total		4041579	2628167
Total sum of liabilities		6743200	5229272

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

EUR in accordance with exchange rate 0.702804

<u>Liabilities</u>	Notes	year 2006	year 2005
<i>I Own capital</i>			
1. Stock or share capital (fixed capital)		550845	550845
2. Stock (share) increase of issue price		2827	2827
4. Reserves:			
d) other reserves		2926306	1602882
<i>Reserves in total</i>		2926306	1602882
5. Retained earnings			
a) retained earnings from previous years		-10294	-6289
b) retained earnings of the year of account		374109	1550774
<i>Retained earnings in total</i>		363815	1544485
<i>Own capital in total</i>		3843793	3701039
<i>II Accruals</i>			
2. Accruals for predictable taxes		267	
<i>Accruals in total</i>		267	0
<i>III Creditors</i>			
<i>I Long-term debts</i>			
1. Deferred taxation liabilities		290787	290787
3. Loans from credit institutions		2754150	247288
4. Other loans		535558	912613
11. Deterred income		198807	186194
<i>Long-term debts in total</i>		3779302	1636882
<i>II Short-term debts</i>			
3. Loans from credit institutions		823057	114654
4. Other loans		319895	580037
5. Upfront payments received from customers		85328	61802
6. Debts to suppliers and contract work		523763	901586
7. Accrued liabilities		69516	69352
10. Taxes and social security payments		31029	178735
11. Other creditors		94249	172614
12. Deterred income		24510	23107
14. Unpaid dividends from previous years			776
<i>Short-term debts to creditors in total</i>		1971347	2102663
<i>Creditors in total</i>		5750649	3739545
<i>Total sum of liabilities</i>		9594709	7440584

Board of directors:

February 28, 2007

Consolidated Cash flow report for December 31, 2006

Ls

	<u>year 2006</u>	<u>year 2005</u>
<u>I. Cash flow from basic activity</u>		
Net gain of the year of account (+); losses (-)	262925	1089890
Wear and tear and writing-off of fixed assets and intangible assets	410068	335539
Losses from the liquidation of fixed assets (+)		52251
Interest for long-term loans received as a payment for business activities, not for directly function		
fluctuations of exchange		
Variations in stocks: increase with "-"; decrease with "+"	-392032	-54697
Variations of advanced payments for goods; increase "-"; decrease "+"	23510	
Variations of incomes for the next periods; increase "-"; decrease "+"	3552	-17000
Variations of creditors debts: increase with "+"; decrease with "+"	-304712	612881
Variations of debtors debts: increase with "-"; decrease with "+"	-81233	-337053
Net cash flow from basic activity	<u>-77922</u>	<u>1681811</u>
<u>II. Cash flow from investments</u>		
Paid when buying fixed assets and added	-940175	-457504
Advanced payment for unfinished fixed assets	-1509157	76626
Paid for long-term investments	-5367	-525787
Received /Granted loan from/to subsidiary company	214	
Received for long-term investments		429787
fluctuations of exchange		
Net cash flow from investments	<u>-2454485</u>	<u>-476878</u>
<u>III. Cash flow from financing</u>		
Received deposits in the capital	5365	
Received loan	2604681	181629
Extinguished debt	-792813	-403348
Paid out dividends	-163350	-96414
Received from the emission of shares		
Profit/loss		
Net cash flow from financial activity	<u>1653883</u>	<u>-318133</u>
Net cash flow and net decrease of its equivalents	<u>-878524</u>	<u>886800</u>
Money and its equivalents at the beginning of the year of account	<u>966491</u>	<u>79691</u>
Money and its equivalents at the end of the year of account	<u>87967</u>	<u>966491</u>

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

EUR in accordance with exchange rate 0.702804

	<u>year 2006</u>	<u>year 2005</u>
<u>I. Cash flow from basic activity</u>		
Net gain of the year of account (+); losses (-)	374109	1550774
Wear and tear and writing-off of fixed assets and intangible assets	583474	477429
Wear and tear and writing-off of fixed assets and intangible assets		74346
Interest for long-term loans received as a payment for business activities, not for directly function		
fluctuations of exchange		
Variations in stocks: increase with "-"; decrease with "+"	-557812	-77827
Variations of advanced payments for goods; increase "-"; decrease "+"	33452	
Variations of incomes for the next periods; increase "-"; decrease "+"	5054	-24189
Variations of creditors debts: increase with "+"; decrease with "-"	-433566	872051
Variations of debtors debts: increase with "-"; decrease with "+"	-115584	-479583
Net cash flow from basic activity	<u>-110873</u>	<u>2393001</u>
<u>II. Cash flow from investments</u>		
Paid when buying fixed assets and added	-1337749	-650970
Advanced payment for unfinished fixed assets	-2147337	109029
Paid for long-term investments	-7636	-748128
Received /Granted loan from/to subsidiary company	304	
Received for long-term investments		611532
fluctuations of exchange		
Net cash flow from investments	<u>-3492418</u>	<u>-678537</u>
<u>III. Cash flow from financing</u>		
Received deposits in the capital	7634	
Received loan	3706127	258435
Extinguished debt	-1128072	-573912
Paid out dividends	-232425	-137184
Received from the emission of shares		
Net cash flow from financial activity	<u>2353264</u>	<u>-452661</u>
Net cash flow and net decrease of its equivalents	<u>-1250027</u>	<u>1261803</u>
Money and its equivalents at the beginning of the year of account	<u>1375193</u>	<u>113390</u>
Money and its equivalents at the end of the year of account	<u>125166</u>	<u>1375193</u>

Board of directors:

February 28, 2007

Consolidated report about variations of own capital for the year 2006

		Ls	
		year 2006	year 2005
1.	Fixed capital		
	<i>Remaining amount in accordance with 01.01.</i>	<u>387136</u>	<u>387136</u>
	Increase	0	0
	Decrease	0	0
	<i>Remaining amount in accordance with 31.12.</i>	<u>387136</u>	<u>387136</u>
2.	Stock (share) increase of issue price		
	<i>Remaining amount in accordance with 01.01.</i>	<u>1987</u>	<u>1987</u>
	Increase	0	0
	Decrease	0	0
	<i>Remaining amount in accordance with 31.12.</i>	<u>1987</u>	<u>1987</u>
7.	Other reserves		
	<i>Remaining amount in accordance with 01.01.</i>	<u>1126512</u>	<u>751333</u>
	Increase of the distribution of profit	930108	375179
	Decrease	0	0
	<i>Remaining amount in accordance with 31.12.</i>	<u>2056620</u>	<u>1126512</u>
8.	Undistributed profit		
	<i>Remaining amount in accordance with 01.01.</i>	<u>1085470</u>	<u>467545</u>
	Profit of the year of account	262925	1089890
	Calculated dividends	162597	96786
	Turned to reserves	930108	375179
	<i>Remaining amount in accordance with 31.12.</i>	<u>255690</u>	<u>1085470</u>
9.	Own capital (in total)		
	<i>Remaining amount in accordance with 01.01.</i>	<u>2601105</u>	<u>1608001</u>
	<i>Remaining amount in accordance with 31.12.</i>	<u>2701433</u>	<u>2601105</u>

Board of directors:

February 28, 2007

Joint-stock company "Saldus mežrūpniecība"
Annual Consolidated Situation Report for the year 2006

EUR in accordance with exchange rate 0.702804

		year 2006	year 2005
1.	Fixed capital		
	<i>Remaining amount in accordance with balan 01.01.</i>	<u>550845</u>	<u>550845</u>
	Increase	0	0
	Decrease	0	0
	<i>Remaining amount in accordance with balan 31.12.</i>	<u>550845</u>	<u>550845</u>
2.	Stock (share) increase of issue price		
	<i>Remaining amount in accordance with balan 01.01.</i>	<u>2827</u>	<u>2827</u>
	Increase	0	0
	Decrease	0	0
	<i>Remaining amount in accordance with balan 31.12.</i>	<u>2827</u>	<u>2827</u>
7.	Other reserves		
	<i>Remaining amount in accordance with balan 01.01.</i>	<u>1602882</u>	<u>1069051</u>
	Increase of the distribution of profit	1323424	533831
	Decrease	0	0
	<i>Remaining amount in accordance with balan 31.12.</i>	<u>2926306</u>	<u>1602882</u>
8.	Undistributed profit		
	<i>Remaining amount in accordance with balan 01.01.</i>	<u>1544485</u>	<u>665257</u>
	Profit of the year of account	374109	1550774
	Calculated dividends	231355	137714
	Turned to reserves	1323425	533832
	<i>Remaining amount in accordance with balan 31.12.</i>	<u>363814</u>	<u>1544485</u>
9.	Own capital (in total)		
	<i>Remaining amount in accordance with balan 01.01.</i>	<u>3701039</u>	<u>2287980</u>
	<i>Remaining amount in accordance with balan 31.12.</i>	<u>3843792</u>	<u>3701039</u>

Board of directors:

February 28, 2007

General principles

This consolidation report has been drawn up in line with the following laws of the Republic of Latvia: the "Law about Companies' Annual reports", the "Law about Consolidated Reports", the "Accounting Law", the "Latvian Accounting Standards No. 1 and No.2, and in line with other normative acts, applicable during the accounting period. The balance sheet has been drawn up in line with the "Law about Companies' Annual Reports", Paragraph 10, and the "Profit and Loss Statement" corresponding with the method of turnover costs Paragraph 12. The cash flow statement has been drawn up by the indirect method and in line with the LGS Paragraph No.2. Report of changes in the self capital has been drawn up in line with the LGS No.1 4. LGS "Changes in Accounting Policy, Changes in Calculation Policy and Mistakes of Previous Periods".

The cash flow report has been drawn up by the means of indirect method.

In comparison with the previous period, the methods of accounting and estimation have not been changed.

The report has been drawn up on the grounds of the concept of continuation of activity.

The amounts given in the consolidated financial reports are shown on the grounds of the company's accounting, which is carried out in line with the normative acts of the Republic of Latvia, mentioned above.

The consolidated financial reports are drawn up on the principle of estimation of initial costs. Positions in the annual report are estimated in correspondence with the following accounting principles:

Holding company's annual report, which is used in the law "About Consolidated Annual Reports", the established method of consolidation of own capital, it has been drawn up as a single company's annual report and gives information about the whole holding company.

The consolidation was carried out in 2006 for the first time, as in 2005 the results of subsidiary company did not have a significant impact on the results of holding company.

*positions in the annual report are estimated with proper precaution, i.e.

in the report is included the profit that was gained until the day of balance;

all prospective risk amounts and losses, which have arisen in the accounting period or in previous periods, are taken into consideration if they have become known in the period between the balance date and the day of drawing up the annual report;

all sums of depreciation and wear and tear regardless the accounting year are concluded with profit or loss;

*in the profit and loss statement are included earnings related to the accounting year and expenses regardless of the date of payment and the date of receiving or drawing up invoice.

Expenses are harmonized with incomes of the accounting period;

*positions of assets and liabilities are estimated separately;

*the balance of the beginning of the accounting year differs from the closing balance of the previous year about the starting remainders of the subsidiary company;

*economic operations are recorded and shown in the annual report by taking into consideration their economic content and substance, but not their legislative form.

Consolidation

Subsidiary companies, companies in which the holding company is entitled both directly or indirectly control and administrate their financial and economic policies, are consolidated in this report (influence in line with the law "About KGP" paragraph 4). Subsidiary companies are consolidated starting from the date when the control is passed over to the holding company, and are excluded from consolidated reports starting from the date when the control ends. Purchase of subsidiary companies is recorded on the grounds of a purchase method. Deals among holding companies, claims and liabilities among them, untapped profit from deals among holding companies are mutually excluded: also, untapped losses are mutually excluded, except the case when expenses are impossible to recover. Where needed, the accounting policy of a subsidiary company is changed in order to ensure its consistency with the holding company's policy.

Net turnover

Net turnover is the total sum of sold production and provided services during one year without trade discounts and value added tax.

Foreign currency converted into lats

All transactions in which were used foreign currency are converted into LVL in accordance with the official rate of exchange of the day of transaction, established by the Bank of Latvia.

Financial reports of a subsidiary company in foreign currency at the end of the accounting period are converted into lats (LVL) in compliance with the rate of exchange of foreign currency on December 31, established by the Bank of Latvia, and corresponding currency rate differences are reflected in the profit and loss calculations.

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Foreign currency rates at the end of the accounting period for the last two years have been following:

	31.12.2006	31.12.2005
	LVL	LVL
1 EUR	0,702804	0.702804
1 USD	0,536	0,593
1 RUB	0.0203	0,0206

Intangible investments

Intangible investments are estimated in compliance with the value of their initial costs (purchase value), except retained depreciation. Depreciation is calculated by the means of linear method, by applying (20%) rate of wear and tear per year.

Fixed assets and low-grade inventory

Fixed assets are estimated in compliance with the value of their initial costs or re-calculated initial value, except retained wear and tear. Wear and tear is calculated by the means of linear method, by applying rates which are based on the assessment of useful lifetime of fixed assets. Land is not worn. We begin calculations of wear and tear of fixed assets starting from the first date of the following months after they have been put into operation and finish on the first date of the next months after its disengagement from the structure of fixed assets.

When the company's income tax is calculated, the wear and tear of fixed assets is calculated in compliance with the rates and demands stated in Paragraph 13 of the law of the Republic of Latvia "About Company's Income Tax".

Reserves

Raw materials, supplies and goods for sale are estimated on the grounds of the FIFO method (first in, first out). On the whole, the turnover is big. In the company's warehouse, there are no dilapidated goods against the total reserve of goods.

Inventory of goods in warehouses is carried out in compliance with FIFO method.

In the balance, cost of reserves is given the lowest (or their market value). Market value is the selling price of stock at the normal operation of a company. If there is such necessity, the value of goods of slow turnover or the value of defective stock, if it is essential, is written off, or there are made stocks of it in the amount, estimated by administration.

Debtors

The debts of debtors are estimated by taking into consideration the principle of precaution, and in the balance are shown only real debtors. The actual sums of debtors correspond with the sums, given in agreements and other original documents of accounting. There has been carried out the reconciliation of debtors' debts, as well as there have been developed reserves in case of doubtful debtors.

Other long-term investments

Other long-term investments are shown at their purchase costs.

Taxes

Income taxes of the year of account are included in the financial statement on the grounds of calculations made by the management and in compliance with the legislative acts of the Republic of Latvia about taxes.

Deferred taxation is calculated by the means of the method of liability in regard to all temporary differences between values of assets and liabilities in financial reports and in regard to their values with the aim of tax calculations. Temporary differences mainly appear due to application of different rates of wear and tear of fixed assets, as well as from taxation losses, which must be transferred then to the following periods of taxation. In cases when the total calculation of the result of deferred taxation should be reflected in the actives of balance, it is included in the report only if its recovery is certain.

Change of the accounting policy and comparative information

If in the year of account the classification of items is changed, then, accordingly, the classification of items for the previous period is changed.

Liabilities for taxes have been compared with the data from the State Revenue Service.

Accruals due to unused vocations

Accruals have been made in compliance with LGS No 8 "Accruals, inferred liabilities and inferred assets". In 2006, accruals were calculated from the average amount of unused vocations, by taking into consideration the average daily wages of each employee and accrued number of days of unused holidays; and are shown was in the balance sheet in the part of accruals.

Appendix to the consolidated profit and loss statement

Net turnover

From the holding company's total income and production costs of sold production are excluded the holding company's mutual deals for the total amount of 128626 LVL.

Holding companies in their accounting reports used the same accounting methods; therefore economic activities in companies are shown alike and are not to be corrected.

Appendix to the consolidated balance sheet on 31.12.2006

Intangible investments

Intangible value is in the residual value of computer software licence. Inter alia, the residual value of the balance of joint-stock company "Saldus mežrūpniecība" of 8182 LVL, Pakuļi Sports Centre, Ltd. – 47 LVL. Company's intangible value results from the purchase of Pakuļi Sports Centre, Ltd.

Fixed assets

The residual values of fixed assets of the companies that belong to the holding company are summed up as there are not fixed assets that have been mutually used or collectively purchased about what there should be carried out the correction of fixed assets, used in company's business activity.

The cadastral value of buildings, which belong to the company, is not established.

The cadastral value of land, which belongs to the company, is 244811 LVL.

The fixed assets, which belong to the company, are mortgaged for the total sum of 2972138 LVL.

Long-term financial investments

Share in the capital of allied and associated companies

Are excluded shares in subsidiary company, which is own capital:

from "Pakuļi Sports Centre" Ltd. 14000 LVL and difference between the purchase price in total for 132002 LVL is shown in the balance sheet as the company's intangible value., OOO Saldus Les- 203 LVL, OOO Saldus- 5162 LVL.

Reserves

From the advance payment for goods is excluded the mutual deal for total amount of 90931 LVL.

Debtors

Debtor's debts in the balance sheet are shown in their net value, except for the accruals, which are made for insecure debts of the total amount of 3843 LVL (in 2005- 62249 LVL) from the value of these debts.

Accruals for debts were made on the grounds of the financial situation and evaluation of the economic activity of some clients by taking into consideration the refunding of debts in line with the concluded agreement and prospects of their recovery.

Accruals are made for those debtors who 2 years in turn do not reply to collation deeds and are not found at the given address, as well as for the debtors against who has been started a process of insolvency (references from the CR).

Excluded the debt of "Pakuļi Sports Centre" Ltd. to the joint-stock company "Saldus mežrūpniecība" the total amount of which is 2089 LVL

Fixed capital

There is shown only the fixed capital of holding company; there are excluded the fixed capitals of "Pakuļi Sports Centre" Ltd. the total amount of which is 14000 LVL, OOO Saldus Les the total amount of which is 203 LVL, and OOO Saldus the total of amount of which is 5162 LVL.

Fixed capital of the joint-stock company "Saldus mežrūpniecība" consists of 387136 shares of which 108500 are public shares which are under control of the Central Depository, 100655 shares belong to Laskana Ltd.SEZ, 104489 shares belong to Saldus mežrūpniecības uzņēmums, Ltd., and 73492 shares belong to the private persons of the Republic of Latvia.

Rate profit from one share in 2006 in the joint-stock company "Saldus mežrūpniecība" was 0.75 LVL/ 1.06 EUR, in 2005 it was 2.82 LVL/ 4.02 EUR.

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Retained earnings of the accounting year

In accordance with the profit-loss statement, the adjusted profit of the holding company in the year 2006 is 262915 LVL.

Long-term debts to allied companies

There is excluded the joint-stock company's "Saldus mežrūpniecība" loan to "Pakuļi Sports centre" Ltd. of 37000 LVL for its financial development, and to OOO Saldus of 153549 LVL.

In the short-term section there is excluded a mutual loan of OOO Saldus Les the total amount of which is 16727 LVL.

Loans from crediting institutions

Joint-stock company "Saldus mežrūpniecība" has a long-term loan of 1815355 LVL; "Pakuļi Sports Centre" Ltd. has a long-term loan of 120273 LVL.

Joint-stock company "Saldus mežrūpniecība" has short-term loans of 578448 LVL.

Other loans

Joint-stock company "Saldus mežrūpniecība" has long-term loan (financial leasing) of 1815355 LVL; "Pakuļi Sports centre" Ltd. - of 21570 LVL.

Joint-stock company "Saldus mežrūpniecība" has short-term loan (financial leasing) of 223513 LVL; OOO Saldus Les of 214 LVL; OOO Saldus of 1096 LVL.

Upfront payments from customers

There are excluded mutual deals with "Pakuļi Sports centre" Ltd. of 2089 LVL, OOO Saldus of 90931 LVL.

Financial risk management

Companies, which are involved in the consolidation, are liable to price risks, credit risks, liquidity risks and cash flow risks.

The most significant financial mechanism of a company is money. The main task of this mechanism is to secure financing of company's economic activity. Company comes into contact with a number of other financial mechanisms, for example, financial leasing, loans from crediting institutions, debts of buyers, customers and other debtors, debts to suppliers and contractors, and other creditors which result directly from economic activity.

General information

Year 2006 the holding company ended with the adjusted balance profit of 262925 LVL.

Board:

February 28, 2007