

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2007

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2008

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Council of the joint-stock company „Saldus mežrūpniecība”

Chairman of the council:	Alvis Spārns
Vice-chairwoman of the council:	Gunta Zoltnere
Members of the council	Edgars Gailītis Vēsmiņš Gunvaldis Māris Elleris

In the period of time from January 1st, 2007 until March 31st, 2007 there have happened changes in the council of the holding company. Since 08.05.2007 the chairman of the council has been Alvis Spārns and the vice-chairwoman of the council has been Gunta Zoltnere.

Board of the joint-stock company „Saldus mežrūpniecība”

Chairman of the board:	Jānis Bertrāns
Members of the board:	Ivars Feikners Gundars Maurs Gatis Zommers

Gatis Zommers has been the member of board since May 8th, 2007.

Joint-stock company “Saldus mežrūpniecība”

Consolidated management report

for the report of activities for the year 2007

Description of commercial activity within the accounting period

In 2007, the consolidated profit of the holding company “Saldus mežrūpniecība” from its economic activity was 374 155 LVL after taxes with the net turnover of 12 465 576 LVL which makes 0,97 LVL profit per each issued stock.

The consolidated profit is smaller than the profit from the business activity of the joint-stock company “Saldus mežrūpniecība”, which was 409 126 LVL, because companies which work with 100% capital of the joint-stock company “Saldus mežrūpniecība”- ООО «Салдус» earned 1047 LVL, “Pakuļi Sports Centre” Ltd. lost 29 966 LVL and ООО «Салдус лес» lost 6 052 LVL.

In 2007, buildings started in 2006 were put into operation: the trade centre of the joint-stock company “Saldus mežrūpniecība”, situated in 15 Saldus bypass and repair shops situated in 21/25 Saldus at bypass.

The holding company's main business activity was carried out in the joint-stock company “Saldus mežrūpniecība” and it was logging. In 2007, the prices of resources and round timber fluctuated. The company worked according to the planned volumes: the sales of round timber were of 241000m³; there was produced 268000 m³ of round timber. The company produced 20300 m³ of sawn timber and 2800 m³ of firewood. At the end of the year the demand for construction materials strongly decreased.

In the subsidiary company ООО «Салдус лес» in the Russian Federation the purchase of buildings and land is completed. There is almost finished the construction of electric power delivery line and the operation line for small wood so that in April there could be started timber sawing. Joint-stock company “Saldus mežrūpniecība” spent its capital assets to replace its logging equipment and machinery. The company has purchased one forwarder tractor and two timber trucks.

The short versions of company's financial situation are drawn up in accordance with the information that the council possesses as well as in accordance with the normative acts in force and give clear and truthful information and clear conception about company's assets, liabilities, financial situation and profit or loss. The report contains truthful information.

Important events after the end of the accounting year

From the end of the accounting period to the period of drawing up the consolidated report there have not been any significant events which could have influenced the company's financial situation, stated in the consolidated financial report.

Forecasts for the financial showings and business activity for 2008

At the beginning of 2008, the sawn timber market has not improved. Today it is hard to forecast how long the situation will last as it is directly related to the recovery of global economics because the main part of our production is being exported.

The recession is seen in almost all sectors of the round timber market. Sales prices are on decrease; thus after three month period the prices of resources are also on decrease which does not help to develop business activity.

The above mentioned does not give positive signals for business development in 2008. Today the planned sales volume of sawn timber is of 21600 m³ and the planned volume of logging is of 261000 m³.

We have to continue to attract investments on favourable conditions for “Pakuļi Sports centre” Ltd. If we fail to do it in the first half of year, we have to make a decision of closing this business activity.

We are planning to start business activity in ООО «Салдус лес» starting from April and gradually increase the volume up to 1500m³ of sawn timber per month.

Business and financial risks management policy

Starting from 2008, the joint-stock company “Saldus mežrūpniecība” is planning to continue dividing its business risks in the field of forest exploitation between Latvia and the Russian Federation so that the turnover in the Russian Federation in 2008 would reach 1,5 million LVL.

Besides, it is planning to explore possibilities to offer its services in Lithuania by becoming a sub-contractor so that in 2009 it could offer its services to the state owned forestries.

Today, when our administration and repair shops have been moved from “Mežvidi” in Novadnieki Parish to Saldus, 86a Kuldigas Street and to 21/25 Saldus bypass and when we have bought out land in Novadnieki “Mežvidi 1”, we can start planning of selling the facilities and borrow less short-term capital from credit institutions in Latvia thus becoming more independent in attraction of short-term financing.

March 31st, 2008

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated profit or loss calculation

	Note	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Net turnover		12 465 576	8 554 113	17 736 917	12 171 406
Production costs of the sold production		(11 221 354)	(7 857 710)	(15 966 548)	(11 180 514)
Gross profit		1 244 222	696 403	1 770 368	990 892
Selling costs		(216 877)	(51 814)	(308 588)	(73 725)
General administration costs		(384 108)	(301 241)	(546 536)	(428 627)
Other income from company's economic activity		93 258	63 368	132 694	90 165
Other expenditures from company's economic activity		(105 634)	(51 205)	(150 304)	(72 858)
Profit or loss from economic activity		630 861	355 511	897 634	505 847
Net profit from participation in the capital of subsidiary and associated companies					-
Other interest income and the like income		15 552	6 192	22 129	8 810
Other interest payments and the like payments		(191 390)	(70 496)	(272 323)	(100 307)
Profit or loss before extraordinary items and taxes		455 023	291 207	647 439	414 350
Extraordinary income					
Extraordinary expenditures					
Profit or loss before taxes		455 023	291 207	647 439	414 350
Company's income tax		(65 185)	(12 524)	(92 750)	(17 820)
Company's deferred income tax		(5 818)	(32 417)	(8 278)	(46 125)
Other taxes		(9 865)	(10 533)	(14 037)	(14 987)
Profit or (loss)		374 155	235 733	532 375	335 418
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		0.97	0.61	1.38	0.87

The annex on pages 11-31 is an integral part of this financial statement

Board :

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated balance sheet

	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Note	Ls	Ls	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trademarks and the like items	12 233	8 229	17 406	11 709
Company's intangible value	132 000	132 000	187 819	187 819
Advance payments for intangible investments	20 210	23 250	28 756	33 082
TOTAL	164 443	163 479	233 981	232 610
Fixed assets				
Land, premises and buildings	2 315 321	1 067 250	3 294 405	1 518 560
Equipment and machinery	2 528 287	2 275 420	3 597 428	3 237 631
Other fixed assets	43 755	22 904	62 258	32 589
Unfinished constructions	508 986	1 410 819	724 222	2 007 415
Advance payments for fixed assets	10 951	121 423	15 582	172 769
TOTAL	5 407 300	4 897 816	7 693 895	6 968 964
Long-term financial investments				
Participation in the capital of related companies			-	-
Loans to the related companies			-	-
TOTAL	-	-	-	-
TOTAL LONG-TERM INVESTMENTS	5 571 743	5 061 295	7 927 876	7 201 574
CURRENT ASSETS				
Stocks				
Raw materials, direct materials, auxiliary materials	174 495	10 842	248 284	15 427
Unfinished production	1 124 298	731 236	1 599 732	1 040 455
Finished production and goods for sale	151 229	55 315	215 179	78 706
Advance payments for goods	86 150	77 934	122 580	110 890
TOATL	1 536 172	875 327	2 185 776	1 245 478
Debtors				
Debts of buyers and customers	818 186	429 112	1 164 174	610 571
Accured income	42 887		61 023	
Other debtors	234 704	320 300	333 954	455 746
Expenditures of the next periods	18 691	6 614	26 595	9 411
TOTAL	1 114 468	756 026	1 585 745	1 075 728
Money and its equivalents				
	20 924	87 744	29 772	124 848
TOTAL CURRENT ASSETS	2 671 564	1 719 097	3 801 293	2 446 055
TOTAL ASSETS	8 243 307	6 780 392	11 729 169	9 647 629

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of boardIvars Feikners
Vice-chairmanGundars Maurs
Member of boardGatis Zommers
Member of board

Consolidate balance sheet (continuation)

	31.12.2007.	31.12.2006.	31.12.2007.	31.12.2006.
Note	Ls	Ls	EUR	EUR
OWN CAPITAL				
Share capital (equity)	387 136	387 136	550 845	550 845
Increase of price of the issue of shares	1 987	1 987	2 827	2 827
Reserves from reestimation of foreign currency	(64)	(2)	(91)	(3)
Other reserves	2 213 959	2 056 620	3 150 180	2 926 307
Undivided consolidated profit from the previous year	(32 619)	(7 235)	(46 413)	(10 294)
Undivided profit (loss) of the year of account	374 155	235 733	532 375	335 418
TOTAL	2 944 554	2 674 239	4 189 723	3 805 099
TOTAL OWN CAPITAL	2 944 554	2 674 239	4 189 723	3 805 099
CREDITORS				
Long-term creditors				
Deferred company's income tax	244 514	236 819	347 912	336 963
Long-term loans from credit institutions	2 078 559	1 886 023	2 957 523	2 683 569
Long-term part of financial lease liabilities	709 019	376 171	1 008 843	535 243
Long-term part of incomes from next periods	98 370	114 611	139 968	163 077
TOTAL	3 130 462	2 613 624	4 454 246	3 718 852
Short-term creditors				
Short-term loans from credit institutions	950 191	624 579	1 352 000	888 696
Short-term part of financial lease	326 978	227 826	465 248	324 167
Advance payments received from buyers	8 128	108 458	11 565	154 322
Debts to suppliers and contractors	555 693	380 041	790 680	540 750
Accured liabilities	61 140	47 612	86 994	67 746
Taxes payable	108 038	21 524	153 724	30 626
Other creditors	141 882	66 248	201 880	94 262
Incomes from the next periods short-term part	16241	16241	23 109	23 109
Unpaid dividends from the previous years			-	-
TOTAL	2 168 291	1 492 529	3 085 200	2 123 677
TOTAL CREDITORS	5 298 753	4 106 153	7 539 446	5 842 529
TOTAL LIABILITIES	8 243 307	6 780 392	11 729 169	9 647 629

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

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Member of board

Consolidated cash flow statement

I. Cash flow from basic activity	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes:	455 023	291 207	647 439	414 350
a) wear and tear of fixed assets and intangible investments (+)	721 457	371 641	1 026 541	528 798
b) elimination of fixed assets and intangible investments	162 339	37 738	230 988	53 696
c) formation of accruals (except for the accruals for insecure debts)	(13 528)	(1 129)	(19 249)	(1 606)
d) profit (-) or loss (+) from fluctuations of exchange rate	29 643	20	42 178	28
e) income from the acknowledgement of financing	(16 241)	(26 096)	(23 109)	(37 131)
f) other interest income and the like income	(15 536)	(6 192)	(22 106)	(8 810)
h) interest payments and the like expenditures	200 592	70 496	285 417	100 307
2. Profit or loss before the corrections of the impact of balance	1 523 749	737 685	2 168 099	1 049 631
a) debitoru parādu atlikumu pieaugums (-) vai samazinājums (+)	(447 875)	155 972	(637 269)	221 928
b) increase (+) or decrease (-) of the reserves of accruals	(660 847)	(462 105)	(940 301)	(657 516)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	215 216	(270 333)	306 225	(384 649)
3. Gross cash flow from basic activity	630 243	161 219	896 755	229 394
4. Expenditures to pay interest payments	(200 592)	(70 496)	(285 417)	(100 307)
5. Expenditures to pay company's income tax and immovable property tax	(44 972)	(186 636)	(63 989)	(265 559)
6. Cash flow before extraordinary items	384 679	(95 913)	547 349	(136 472)
7. Cash flow from extraordinary items				
8. Net cash flow from basic activity	384 679	(95 913)	547 349	(136 472)
II. Cash flow from investments				
3. Acquisition of fixed assets and intangible investments	(457 074)	(799 767)	(650 358)	(1 137 966)
4. Expenditures for advance payments for fixed assets and unfinished constructions	(358 172)	(1 432 233)	(509 633)	(2 037 884)
5. Income from selling fixed assets and intangible investments	359 611		511 680	-
6. Interest received	2 854	6 192	4 061	8 810
6. Net cash flow from investments	(452 781)	(2 225 808)	(644 249)	(3 167 039)
III. Cash flow from financing activities				
1. Loans received	1 123 136	2 359 819	1 598 079	3 357 720
2. EU financing received		9 850	-	14 015
3. Received investments in capital		(2)	-	(3)
4. Expenditures for paying back loans	(604 988)	(103 591)	(860 820)	(147 397)
5. Expenditures for redemption of asset that was hired	(390 082)	(659 940)	(555 037)	(939 010)
6. Paid out dividends	(96 784)	(163 142)	(137 711)	(232 130)
6. Net cash flow from financing activities	31 282	1 442 994	44 510	2 053 195
IV. The result of the exchange rate fluctuations	(30 000)	(20)	(42 686)	(28)
V. Net cash flow of the year of account increase (+), decrease (-)	(66 820)	(878 747)	(95 076)	(1 250 344)
VI. Money and its equivalents balance at the beginning of the year of	87 744	966 491	124 848	1 375 193
VII. Money and its equivalents balance at the end of the year of account	20 924	87 744	29 772	124 848

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Statement on the changes in own capital

	Share capital	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Undivided profit/loss of the previous year	Undivided profit/loss of the year of account	Total own capital
	Ls		Ls	Ls	Ls	Ls	Ls
December 31, 2005	387 136		1 987	1 126 512	(4 420)	1 089 890	2 601 105
Distribution of profit of the year 2005	-	(2)	-	930 108	(2 815)	(927 293)	(2)
Paid out dividends	-	-	-	-	-	(162 597)	(162 597)
Profit of the year of account,adjusted	-	-	-	-	-	235 733	235 733
December 31, 2006	387 136	(2)	1 987	2 056 620	(7 235)	235 733	2 674 239
Currency fluctuations due to the reestimation of for.	-	(62)	-	-	-	-	(62)
Reestimation reserves	-	-	-	-	-	-	-
Distribution of the year 2006 profit	-	-	-	157 339	(25 384)	(235 733)	(103 778)
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	374 155	374 155
December 31, 2007	387 136	(64)	1 987	2 213 959	(32 619)	374 155	2 944 554

	Share capital	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Undivided profit/loss of the previous year	Undivided profit/loss of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2005	550 845	-	2 827	1 602 882	(6 289)	1 550 774	3 701 039
Distribution of profit of the year 2005	-	(3)	-	1 323 424	(4 005)	(1 319 419)	(3)
Paid out dividends	-	-	-	-	-	(231 355)	(231 355)
Profit of the year of account,adjusted	-	-	-	-	-	335 418	335 418
December 31, 2006	550 845	(3)	2 827	2 926 307	(10 294)	335 418	3 805 099
Currency fluctuations due to the reest	-	(88)	-	-	-	-	(88)
Reestimation reserves	-	-	-	-	-	-	-
Distribution of the year 2006 profit	-	-	-	223 873	(36 118)	(335 418)	(147 663)
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	532 375	532 375
December 31, 2007	550 845	(91)	2 827	3 150 180	(46 413)	532 375	4 189 723

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

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

In order to divide risks among countries and among economic activities, the joint-stock company Saldus mežrūpniecība in 2005 and 2006 founded two subsidiary companies in Pskov Region of the Russian Federation- ООО Салдус and ООО Салдус лес, both of which shall carry out timber cutting and timber processing, but in 2005 the company purchased 100% shares of “Pakuļi Sports Centre” Ltd. the main activity of which is directed towards sport and recreation activities; besides, the company possesses a big real estate in a very good location.

Because of that in 2006 the joint-stock company Saldus mežrūpniecība drew up a consolidated annual report (hereinafter- holding company).

1. Name of the company**Pakuļu sporta bāze / Pakuļi Sports Centre**

Legal status of the company

Limited liability company

Registration No, date in the Commercial Register

48503009010 November 21, 2002

Address

Mežvidi, Novadnieki Parish, Saldus District LV 3801

Main types of business activity

Hunting and related services, trainings and shooting competitions with weapons

Owner

Saldus mežrūpniecība, A/s 100%

Year of account

January 1-December 31, 2007

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 activity

Logging

Owners

Saldus mežrūpniecība, A/s – 99.997 %

Kolosovs Sergejs - 0.003 %

Year of account

January 1-December 31, 2007

3. Name of the company**Saldus**

Legal status of the company

Limited liability company (OOO)

Registration number, date, place

1056000426371 December 21, 2005

Address

Krievija, Pleskavas apgabals

Main types of business activity

Konnaja 2-214, Pskov, Russia 180007

Purchase of timber

Owners

Saldus mežrūpniecība, A/s - 100 %

Year of account

January 1-December 31, 2007

The consolidated financial statement of the holding company is confirmed in compliance with the decision of its board 26.03.2008 and council 31.03.2008. Shareholders of the holding company have rights to amend it after it has been issued.

2. Important accounting principles

In preparation of the holding company's financial statement, there were used the following accounting principles:

Principles of preparing the financial statement

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statement was prepared in compliance with the Principle of Historical Cost.

Currency and items used in the preparation of the financial statement

In financial statements as a monetary unit is used Latvian lat (Ls)- the monetary unit of the Republic of Latvia.

Consolidation

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., ooo Saldus Les and ooo Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūpniecība and its subsidiary companies were one company. In preparation of the Holding's financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net assets obtained by the Holding is accounted as an intangible value.

Consolidation of foreign subsidiary companies

By including in the financial statements the financial showings of foreign subsidiary companies, the Holding's parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Holding.

Changes in the accounting principles

In 2006, the Holding accepted the IFRS which were amended in 2004 and the application of which is mandatory for the financial years starting from January 1, 2005 or later. To apply these standards there were not made any significant changes in the Holding's financial principles. Consolidation was carried out in 2006 for the first time as in 2005 the results of subsidiary companies did not significantly impact the parent company's showings.

Application of the International Financial Reporting Standards

- SGS Nr.1 Drawing up of financial statements
- SGS Nr.2 Reserves
- SGS Nr.7 Cash flow statements
- SGS Nr.8 Accounting policies, changes in calculations and errors
- SGS Nr.10 Events after the balance sheet date
- SGS Nr.14 Showing information through segments
- SGS Nr.16 Capital assets
- SGS Nr.18 Incomes
- SGS Nr.19 Employee allowances
- SGS Nr.21 Impact of foreign currency fluctuations
- SGS Nr.23 Costs of loans
- SGS Nr.24 Disclosure of information about associated parties
- SGS Nr.27 Consolidated and separate financial statements
- SGS Nr.32 Financial instruments: disclosure and showing
- SGS Nr.33 Profit per share
- SGS Nr.36 Decrease of the value of assets
- SGS Nr.37 Reserves, possible liabilities and possible assets
- SGS Nr.38 Intangible assets
- SGS Nr.39 Financial instruments: acknowledgement and estimation

3. Important accounting principles (continuation)

Use of calculations (continuation)

When preparing financial statements, the management have to base on certain calculations and assumptions, which influence the remainders of the balance and the profit or loss posts shown in particular statements as well as the amount of possible liabilities. Future events may have an impact on assumptions which were taken into consideration when separate calculations were made. Any influence of calculations is shown in the financial statement at the moment of their determination.

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the 000 Saldus and 000 Saldus Łes where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the 000 Saldus and 000 Saldus Łes into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	31.12.2007.	31.12.2006.
USD/ LVL	0,484	0,536
RUB/ LVL	0.0197	0.0203
EUR/ LVL	0,702804	0.702804

Intangible investments

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

The intangible investments include the licences of software used in the Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are includes as expenditures in the profit/loss statement.

2. Important accounting principles (continuation)

Capital assets

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated

Wear and tear is calculated for the time of their effective use, by applying a linear method:

Buildings, constructions	- 10 years
Equipment and machinery	- 10 years
Forest equipment	- 5 years (since 01.01.2007.)
Timber processing lines	- 5 years (since 01.01.2007.)
Other capital assets	- 5 years
Computing and data gathering devices, software	- 5 years

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.

The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value can not be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount.

Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Wear and tear for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

Decrease of the value of assets

At the end of each year the Holding audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Holding has to carry out the annual audit of the decrease of the value of assets, the Holding establishes the recoverable amount for each asset. The recoverable amount is the biggest amount of selling value from which is subtracted expenditures related to the selling value and use-values. In order to determine the decrease of value, assets are grouped in the lowest possible level for which it is possible to separately determine cash flows (cash flow generating assets). If the balance value of assets is bigger than its recoverable amount, the decrease of the value of asset is acknowledged and the assets are written off to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity.

Loan costs

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle No 23.

2. Important accounting principles (continuation)

Lease

Financial lease transactions when the Holding is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

Lease of capital assets when practically all risks arising from proprietorship and compensation receives lessor is classified as operative lease. Lease payments then are accounted as expenditures during the whole period of lease and are attributed to the profit or loss calculation in the whole period of lease by using a linear method.

Reserves

Unfinished products

Reserves are accounted in their lowest cost value and net selling value. Cost is calculated by applying the FIFO method- first in, first out. Net selling value is the calculated selling price which is normally used in business by subtracting the expenditures needed to finish and sell products.

Raw materials are accounted in their purchase costs.

Finished and unfinished products are accounted in their direct costs (raw materials and labour) by adding indirect expenditures needed for their production (salaries, electricity, wear and tear and other related costs which would be used in usual production volumes).

Finished products are accounted in their lowest cost or net selling value. Net selling value is the calculated selling price in normal business activity by subtracting expenditures which will be needed to finish and sell the products.

The company regularly estimates if the value of reserves has not decreased due to aging or damage. Corresponding loss is included in the profit or loss calculation as production costs of sold products. When damaged products are physically destroyed, the value of reserves and the value of appropriate reserves are written off.

Debts of buyers and customers

Debts of buyers and customers in the balance sheet are shown according to their initial amount except for reserves for insecure debts. Reserves for insecure debts are calculated when it is unlikely that the whole amount of debt could be recovered. Debts are written off when the recovery of it is believed impossible.

Money and its equivalents

Money and its equivalents is money in the 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 in non-material form.

Profit per share

Profit per share is calculated in the following way: profit of the year of account after taxes is divided with weighted-average number of shares in circulation in the period of account.

2. Important accounting principles – *Income recognition (continuation)*

Credits and loans

Credits and loans initially are shown in their initial value, which is calculated by subtracting or adding to the real value of credit or loan expenditures related to the receiving or granting the loan.

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

Accruals

Accruals are acknowledged if the Holding has an obligation (legal or arising from practise) caused by a past event or if there is a probability that in order to meet the liabilities the Holding will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Holding anticipates that expenditures needed to make accruals will be fully or partly paid back, refund of these expenditures is acknowledged as a separate asset only when it is practically clear that these expenditures will be refunded. Expenditures related to accruals in the profit or loss calculation are shown, except for the sums which will be needed to reimburse expenditures.

Accruals and deferred liabilities

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

Income recognition

Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:

Incomes from service rendering mainly include transport services related to timber processing.

Incomes from services are recognized and they correspond with the volume of service. Incomes from services are recognized in the period when they were rendered.

If it is not possible to reasonably estimate the outcome of deal, income is recognized only in the amount in which recognized expenditures could be recovered.

Sale of goods

Incomes are recognized when the Holding has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Holding has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors' debts.

Interest

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease.

2. Important accounting principles (continuation)

Taxes

Company income tax

The income tax of parent and subsidiary companies of the Holding is calculated by applying the 15% company income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

Deferred company income tax

Deferred company income tax, which has arisen from short-term differences by including particular posts in tax declaration and in this financial statement, is calculated by applying the Liability Tax Allocation Method. The assets and liabilities of the deferred company income tax are established on the basis of tax rates which are to be applied when disappear short-term differences. Main short-term differences arise from different wear and tear rates applied by accounting and taxation needs as well as from particular accruals and tax losses which have been transferred on to the following five years. The assets of deferred company income tax in the financial statement are shown only in the case if their recoverability could be plausibly foreseen.

Possible liabilities and assets

In this financial statement the possible liabilities are not acknowledged. As liabilities they are acknowledged only when the possibility that funds will be spent becomes pretty plausible. Possible assets in this financial statement are not acknowledged, but they are shown only when plausibility that economic gains related to a transaction will reach the Holding is pretty grounded.

Allowances

Parent and subsidiary companies of the Holding pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments. Parent company does not have to follow additional legal or other liabilities or to make additional payments if the state funded pension schemes or private pension plans can not meet their liabilities towards employees. Social insurance and pension plan payments as well as health insurance payments are included in the expenditures in the same period when the according payment was made. Pension plan payments and cash flow are similar, and the employer does not account assets or liabilities by accruals method.

Associated persons

Associated persons are Holding's parent company's subsidiary companies and shareholders who can significantly influence the activity of the Holding's parent company, the members of council and board, their close relatives and companies in which the said persons have significant impact or control.

Events after the end of the year of account

After the year of account, in the financial statement are shown the events which give additional information about the Holding's financial situation on the date of drawing up the balance sheet (correcting events). If the events after the end of the year of account are not correcting, they are shown in the notes of the annex to the financial statement only if they are significant.

3. Segments of the Holding activities

	logging		timber processing		Other and undistributable		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Net turnover	9 375 363	5 150 410	3 084 273	3 355 199	5 940	48 502	12 465 576	8 554 111
Production costs of sold products	(8 301 977)	(4 741 151)	(2 904 822)	(3 074 700)	(14 555)	(41 860)	(11 221 354)	(7 857 711)
Selling costs	(216 877)	(50 777)		(1 037)			(216 877)	(51 814)
General administration costs	(63 928)	(185 863)	(5 409)	(99 010)	(314 770)	(16 367)	(384 107)	(301 240)
Other incomes/expenditures from economic activity	57 432	7 907	(10 860)	5 314	(58 948)	(1 060)	(12 376)	12 161
Segment profit	850 013	180 526	163 182	185 766	(382 333)	(10 785)	630 862	355 507
Financial expenditures, net	(57 102)	(36 739)	(19 790)	(13 258)	(98 947)	(14 307)	(175 839)	(64 304)
Company income tax (undistributable)					(71 003)	(44 937)	(71 003)	(44 937)
Other taxes	(5 426)	(3 345)	(4 439)	(7 138)		(50)	(9 865)	(10 533)
Net result	787 485	140 442	138 953	165 370	(552 283)	(70 079)	374 155	235 733
Segment assets	3 269 884	2 742 052	3 421 707	1 797 391	1 551 716	2 240 949	8 243 307	6 780 392
Segment liabilities	3 768 961	936 644	1 489 216	493 610	2 985 130	5 350 138	8 243 307	6 780 392
	logging		timber processing		Other		Total	
	2 007	2 006	2 007	2 006	2 007	2 006	2 007	2 006
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	13 339 940	7 328 373	4 388 525	4 774 018	8 452	69 012	17 736 917	12 171 403
Production costs of sold products	(11 812 649)	(6 746 050)	(4 133 189)	(4 374 904)	(20 710)	(59 561)	(15 966 548)	(11 180 515)
Selling costs	(308 588)	(72 249)	-	(1 476)	-	-	(308 588)	(73 725)
General administration costs	(90 961)	(264 459)	(7 696)	(140 879)	(447 877)	(23 288)	(546 535)	(428 626)
Other incomes/expenditures from economic activity	81 718	11 251	(15 452)	7 561	(83 875)	(1 508)	(17 609)	17 304
Segment profit	1 209 460	256 865	232 187	264 321	(544 011)	(15 346)	897 636	505 841
Financial expenditures, net	(81 249)	(52 275)	(28 159)	(18 864)	(140 789)	(20 357)	(250 196)	(91 496)
Company income tax	-	-	-	-	(101 028)	(63 940)	(101 028)	(63 940)
Other taxes	(7 721)	(4 760)	(6 316)	(10 156)	-	(71)	(14 037)	(14 987)
Net result	1 120 490	199 831	197 712	235 300	(785 828)	(99 713)	532 375	335 418
Segment assets	4 652 626	3 901 588	4 868 650	2 557 457	2 207 893	3 188 583	11 729 169	9 647 629
Segment liabilities	5 362 748	1 332 724	2 118 963	702 344	4 247 457	7 612 561	11 729 169	9 647 629

3. Segments of the Holding activities (continuation)

The Holding shows information through particular segments.

The above table shows the Holding's profit or loss posts and the distribution of assets and liabilities through segments:

The management of the Holding believe that it is not useful to prepare cash flow statements through different segments.

Segment descriptions:

Logging

Income in this segment mainly arises from selling of round timber, obtained in logging, and timber transportation in the territory of Latvia and from the income from logging services.

Timber processing

Income in this segment mainly arises from selling of sawn timber which was obtained in the production process and from rendering of different services which are related to timber processing.

Other

Collected lease payments for the use of the company's real estate and other income which is not related to the company's economic activity.

4. Net turnover through geographical segments

Since the economic activity of the Holding is mainly performed in Latvia and all significant assets are situated in Latvia, the management believe that it is not useful to prepare a statement through geographical segments as the amount of income from different geographical segments does not exceed 10 % of total income.

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Income from sales, int. Al.	12 060 576	8 029 596	17 160 654	11 425 086
Latvia	11 095 518	7 191 461	15 787 500	10 232 527
Russia	182 869	46 692	260 199	
the EU countries	782 189	838 135	1 112 955	1 192 559
Income from rendering of services, int. Al.	405 000	524 517	576 263	746 320
Latvia	385 868	524 517	549 041	746 320
Russia	19 132		27 222	
	12 465 576	8 554 113	17 736 917	12 171 406

5. Production costs of sold products

	2007 Ls	2006 Ls	2007 EUR	2006 EUR
Actual cost of sold products				
Wages	1 242 324	899 821	1 767 668	1 280 330
Wear and tear of capital assets	693 085	357 470	986 171	508 634
Purchasing costs of raw materials	2 470 073	1 977 877	3 514 598	2 814 265
Stem taxes	5 031 955	3 503 377	7 159 827	4 984 856
Electricity costs	72 415	77 821	103 037	110 729
Security, heating	18 652	22 718	26 539	32 325
Services received from outside	1 628 270	985 332	2 316 820	1 402 001
Other costs	64 579	33 295	91 888	47 375
	11 221 354	7 857 711	15 966 548	11 180 515

6. Selling costs

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Other expenditures	150	1 037	213	1 476
Railway, customs clearance formalities	216 727	50 777	308 375	72 249
	216 877	51 814	308 588	73 725

7. General and administration costs

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Administration costs				
Wages	173 982	151 632	247 554	215 753
Wear and tear of capital assets	25 369	14 172	36 097	20 165
Communication costs	6 657	6 032	9 472	8 583
Office upkeep costs	57 952	66 474	82 458	94 584
Annual report costs	5 726	4 467	8 147	6 356
Banking services	3 104	4 618	4 417	6 571
Insurance costs	13 076	3 457	18 605	4 919
Legal services	4 719	13 507	6 715	19 219
Other	53 935		76 743	
Travelling allowance	5 867	7 696	8 348	10 950
Maintenance of the capital assets of administration	33 721	29 186	47 981	41 528
	384 108	301 241	546 536	428 627

8. Other income from economic activity

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Other income				
Income from excluding of long-term investments	68 335	12 000	97 232	17 074
Income from the fluctuations of exchange rate	848	20	1 207	28
Other income	7 834	25 252	11 147	35 930
Income of the next periods	16 241	26 096	23 109	37 131
	93 258	63 368	132 694	90 165

9. Other costs of economic activity

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Other expenditure				
Loss from excluding long-term investments		6 678		9 502
Expenditure due to exchange rate fluctuations	29 622		42 148	
Donations	11 370	5 300	16 178	7 541
Accruals for insecure debtors		3 843		5 468
Other expenditure	24 604	9 783	35 008	13 920
Payments into private pension funds	24 843	25 601	35 348	36 427
Penalties	15 195	152	21 621	216
	105 634	51 357	150 304	73 074

10. Staff costs

	Ls	Ls	EUR	EUR
Average number of employees	173	181		
Staff costs in total				
Wages pursuant to differen legislation	44 923	6 752	63 920	9 607
Wages	1 126 407	840 883	1 602 733	1 196 469
Social security tax	244 976	201 558	348 569	286 791
	1 416 479	1 049 374	2 015 222	1 492 867
Int. Al.				
Wages of production workers				
Wages pursuant to differen legislation	44 923	3 971	63 920	5 650
Wages	984 301	723 812	1 400 534	1 029 892
Social security tax	213 100	173 343	303 214	246 645
	1 242 324	901 126	1 767 668	1 282 187
Administration wages				
Wages pursuant to different legislation		2 781		3 957
Wages	142 106	117 071	202 199	166 577
Social security tax	31 876	28 215	45 355	40 146
	173 982	148 067	247 554	210 680
Int. Al. For management				
Wages	49 385	46 230	70 269	65 779
Social security tax	11 333	10 536	16 125	14 991
	60 718	56 766	86 394	80 771

11. Financial income/ (expenditure), net

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
% for granted loans	12682		18 045	
Received % from the balance of account	2 870	6 192	4 084	8 810
	15 552	6 192	22 129	8 810
Paid % for loans	153 368	25 867	218 223	36 805
Paid % for financial lease	38 023	44 477	54 102	63 285
	191 391	70 344	272 325	100 090

12. Company income tax

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Company income tax for the year of account	65 185	12 524	92 750	17 820
	65 185	12 524	92 750	17 820
Deferred company income tax	5 818	32 417	8 278	46 125
	5 818	32 417	8 278	46 125

In 2007, in compliance with the Company Income Tax Law Paragraph 14.1 the joint-stock company Saldus mežrūpniecība took into possession a subsidiary company Pakuļi Sports Centre Ltd. and as a result the company lost 29 966 Ls.

Deferred company income tax:

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
<i>Liabilities of the deferred company income tax</i>				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	4 375 308	3 002 692	6 225 502	4 272 446
Residual value of capital assets needed for taxes	684 076	1 376 287	973 352	1 958 280
Uncovered tax loss				
Accruals for holidays	61 140	47 612	86 994	67 746
Temporary difference	1 630 092	1 578 793	2 319 412	2 246 420
Liabilities of deferred tax	244 514	236 819	347 912	336 963
Assets of deferred tax	-	-	-	-

To calculate the rate of deferred tax 15 % rate is applicable.

13. Intangible investments

		Software	Intangible value	Advance payments for intangible investments	Total
		Ls	Ls	Ls	Ls
Initial value 31.12.2006.		18 225	132 000	23 250	173 475
2007	Purchase	9 494		5 460	14 954
	Decrease of value	(272)		(8 500)	(8 772)
					-
Initial value 31.12.2007.		27 447	132 000	20 210	179 657
Accured deprication 31.12.2006.		9 996			9 996
2007	Deprication	5 178			5 178
	Decrease of value	40			40
					-
Accured deprication 31.12.2007.		15 214	-	-	15 214
Residual value 31.12.2006.		8 229	132 000	23 250	163 479
Residual value 31.12.2006.		12 233	132 000	20 210	164 443
Residual value 31.12.2006.		5 years			
		Software	Intangible value	Advance payments for intangible investments	Total
		EUR	EUR	EUR	EUR
Initial value 31.12.2006.		25 932	187 819	33 082	246 833
2007	Purchase	13 509	-	7 769	21 278
	Decrease of value	(387)	-	(12 094)	(12 481)
		-	-	-	-
Initial value 31.12.2007.		39 054	187 819	28 756	255 629
Accured deprication 31.12.2006.		14 223	-	-	14 223
2007	Deprication	7 368	-	-	7 368
	Decrease of value	57	-	-	57
		-	-	-	-
Accured deprication 31.12.2007.		21 648	-	-	21 648
Residual value 31.12.2006.		11 709	187 819	33 082	232 610
Residual value 31.12.2006.		17 406	187 819	28 756	233 981
Deprication rate (by the linear method)		5 gadi			

Advance payments for intangible investments are due because of the development of accounting program. Decrease is written off accured costs due for the development of accounting program.

Costs of wear and tear are included in the following posts of profit or loss

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
General administration costs	5 178	3 656	7 368	5 202

Company's intangible value

The intangible value of the Holding in 2007 is 132 000 Ls. It arose due to the purchase of Pakuļi Sports Centre Ltd. which is 100 % subsidiary company of the joint-stock company Saldus mežrūpniecība. In order to check and to decrease its intangible value, a recoverable value was established for Pakuļi Sports centre Ltd. In 2005 a certified real estate valuator estimated that the value of land

which is in possession of Pakuļi Sports Centre Ltd. amount of which is 20,96 ha (at the time of purchase the value of land made 80-90 % of its assets) is 146 000 lats (i.e. 0,70 Ls/m²). The management asked to evaluate the value of this real estate again by the Association of Real Estate Valuation and received their valuation which exceeds the purchase price of this real estate- 157 000 Ls (i.e. . 0,75 Ls/m²). As a result there does not have to be acknowledged the decrease of intangible value.

14. Capital assets

		Land, buildings and systems	Equipment and machinery	Other capital assets	Unfinished construction	Total, except for advance payments for capital assets
		Ls	Ls	Ls	Ls	Ls
Accounting value 31.12.2006.		1 305 355	3 365 156	73 952	1 410 819	6 155 282
2007	Purchase	1 415 899	940 791	33 228	1 686 639	4 076 557
	Liquidity	(10 515)	(680 380)	(1 613)	(234 148)	(926 656)
	Reconstruction*	35 459	50 991			86 450
	Reshuffle				(2 169 148)	(2 169 148)
Accounting value 31.12.2007.		2 746 198	3 676 558	105 567	694 162	7 222 485
Accrued wear and tear 31.12.2006.		238 105	1 089 736	51 048		1 378 889
2007	Wear and tear	193 900	509 749	12 320		715 969
	Wear and tear of liquid assets	(1 128)	(451 214)	(1 556)		(453 898)
	Reshuffles				185 176	185 176
Accrued wear and tear 31.12.2007.		430 877	1 148 271	61 812	185 176	1 826 136
Residual value 31.12.2006.		1 067 250	2 275 420	22 904	1 410 819	4 776 393
Residual value 31.12.2007.		2 315 321	2 528 287	43 755	508 986	5 396 349
Rate of wear and tear (linear method)		10 years	5-10 years	5 years		
		Land, buildings and systems	Equipment and machinery	Other capital assets	Unfinished construction	Total, except for advance payments for capital assets
		EUR	EUR	EUR	EUR	EUR
Accounting value 31.12.2006.		1 857 353	4 788 186	105 224	2 007 414	8 758 177
2007	Purchase	2 014 643	1 338 625	47 279	2 399 872	5 800 419
	Liquidity	(14 961)	(968 094)	(2 295)	(333 163)	(1 318 513)
	Reconstruction*	50 454	72 554	-	-	123 007
	Put into operation	-	-	-	(3 086 420)	(3 086 420)
Accounting value 31.12.2007.		3 907 488	5 231 271	150 208	987 704	10 276 671
Accrued wear and tear 31.12.2006.		338 793	1 550 555	72 635	-	1 961 981
2007	Wear and tear	275 895	725 307	17 530	-	1 018 732
	Wear and tear of liquid assets	(1 605)	(642 020)	(2 214)	-	(645 837)
	Reshuffles	-	-	-	263 482	263 482
Accrued wear and tear 31.12.2007.		613 083	1 633 842	87 951	263 482	2 598 358
Residual value 31.12.2006.		1 518 560	3 237 631	32 589	2 007 414	6 796 195
Residual value 31.12.2007.		3 294 405	3 597 428	62 258	724 222	7 678 312
Rate of wear and tear (linear method)		10 years	5-10 years	5 years		

15. Unfinished construction and advance payments for capital assets

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
In 2006, in the joint-stock company Saldus mežrūpniecība was reconstructed and put into operation its administrative building		388 108		552 228
Piece of land added to the existing property		1 300		1 850
<i>*reconstruction in total:</i>		389 408		554 078
Shooting-range and recreation territory in Pakulji Sports Centre	78 872	77 872	112 225	110 802
Unfinished construction in Russia	415 574		591 309	
Trade centre	14 540	758 432	20 689	1 079 152
Repair shops		396 069		563 555
Sawing line for small timber		138 300		196 783
Sorting line for dry sawn timber		40 146		57 123
<i>in total unfinished construction objects:</i>	508 986	1 410 819	724 222	2 007 415
for the delivery of PI in 2008	10 951		15 582	
Real estate in Russia		113 253		161 145
Trade centre		8 170		11 625
<i>in total advance payments for capital assets</i>	10 951	121 423	15 582	172 769

16. Reserves

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Materials, spare parts, inventory	174 495	10 842	248 284	15 427
Round timber in forests	305 480	338 581	434 659	481 757
Round timber at rads and in workshops	524 840	371 348	746 780	528 381
Sawn timber	293 978	21 307	418 293	30 317
<i>in total unfinished construction</i>	1 124 298	731 236	1 599 732	1 040 455
Finished production	151 229	55 315	215 179	78 706
Advance payments for goods	86 150	77 934	122 580	110 890

In the Holding on 31.12.2007 was carried out inventory and non-marketable stocks were not established.

17. Debts of buyers and customers

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
For transport services	9 750	25 367	13 873	36 094
For the lease of immovables and equipment	15 010	4 790	21 357	6 816
For timber	824 522	464 927	1 173 189	661 532
Other services	255	120	363	171
debtors debts in total	849 537	495 204	1 208 782	704 612
accruals for doubtful debtors	31 351	66 092	44 608	94 040
<i>Debts of buyers and customers in net value:</i>	<i>818 186</i>	<i>429 112</i>	<i>1 164 174</i>	<i>610 571</i>

Residuals of debtors debts in the balance sheet are shown in their net value except for the reserves for doubtful debts in the amount of 3843 Ls (5468 EUR) which were established from the accounting value of these debts. In 2007, there were written off reserves for insecure debts for the amount of 12 194 Ls (17350 EUR), against which there is being carried out or shall be carried the act of bankruptcy or liquidation.

Reserves for insecure debts were made on the bases of estimation of the financial situation and economic activity of some of the customers by taking into consideration the debt repayment in compliance with the concluded agreement and possibility of recovery.

Reserves are made for the debtors who 2 years in turn have not responded to collation acts and can not be found in their given addresses and for the debtors against whom there has been started the procedure of insolvency (reference from the CR).

18. Other debtors

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Deferred VAT	57 452	7 859	81 747	11 182
Surplus company income tax payment		89 549		
Surplus VAT payment	82 657	193 502	117 610	275 329
VAT paid in advance on boarder	470	1 095	669	1 558
Surplus URN payment	924	252	1 315	359
Other debtors	93 201	162	132 613	231
Advance payment to the customs for cargo carried equipment		26 822		38 164
Advance payments for other services		1 059		1 507
<i>In total other debtors</i>	<i>234 704</i>	<i>320 300</i>	<i>333 954</i>	<i>328 329</i>

19. Expenditures of the next periods

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Insurance	208	5 976	296	
Transaction account				0
Licence fees	1 993	638	2 836	908
Other	16490			
<i>In total expenditure of the next periods</i>	<i>18 691</i>	<i>6 614</i>	<i>3 132</i>	<i>908</i>

20. Money and its equivalents

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Money in accounts	14 310	87 403	20 361	124 363
Money in cash	6 614	341	9 411	485
<i>In total other debtors</i>	<i>20 924</i>	<i>87 744</i>	<i>29 772</i>	<i>124 848</i>

20. Share capital, reserves and profit per share

Changes in share capital and distribution of shares among shareholders are shown in the following way:

	%	2007	2006
		Ls	EUR
Shares of closed issue			
LTD SEZ Laskana	26	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	27	104 489	148 674
Physical persons of the Republic of Latvia	19	73 492	104 570
Shares of public offering *	28	108 500	154 382
Total:	100	387 136	550 845
06.12.31		387136	550 845
07.12.31		387136	550 845

*Shares of public offering consist of 108 500 shares the holder and controller of which is the joint-stock company Latvian Central Depository, consequently these shares are available in the market.

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account which makes 374 155 Ls (in 2006- 235 733 Ls) is divided with the weighted-average number of shares in circulation in the period of account which is 387 136 (in 2006- 387 136).

A nominal value of each share is 1 Latvian lat.

In compliance with the statutes, the profit which remains after dividends are paid and included in undividable reserves is included in other reserves and used for the further development of the company.

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Profit of the period of account	374 155	235 733	532 375	335 418
Number of shares 31.12.	387 136	387 136	550 845	550 845
Basic profit per share per year	0,97	0,61	1,38	0,87

21. Loans from credit institutions

	% rate in force	Atmaksas termiņš	2007	2006	2007	2006
			Ls	Ls	EUR	EUR
Long-term:						
A/s Hansabanka	6 mon.Euribor + 1.5%	1 year or more	51 763	102 403	73 652	145 706
A/s Hansabanka	3 mon.Euribor + 0.9-1.2%	1 year or more	781 837	617 182	1 112 454	878 171
A/s Nordea banka	3 mon.Euribor + 0.8%	1 year or more	1 152 452	1 055 478	1 639 791	1 501 810
A/s Hansabanka	3 mon. Euribor + 0.9%	1 year or more	92 507	110 960	131 626	157 882
			2 078 559	1 886 023	2 957 523	2 683 569
Short-term:						
A/s Hansabanka	3 mon.Rigibor + 1.3%; 3 mon.Euribor + 1.3%	up to 12 mon.	572 029	374 358	813 924	532 663
A/s Nordea banka	3 mon.Euribor + 0.8%	up to 12 mon.	129 587	50 602	184 386	72 000
A/s Hansabanka	6 mon.Euribor + 1.5%	up to 12 mon.	50 640	64 829	72 054	92 243
A/s Hansabanka	3 mon.Euribor + 0.9%	up to 12 mon.	17 976	5 840	25 578	8 310
A/s Hansabanka	3 mon.Euribor + 0.9-1.2%	up to 12 mon.	179 959	128 950	256 059	183 479
			950 191	624 579	1 352 000	888 696
			3 028 750	2 510 602	4 309 523	3 572 265

22. Liabilities of financial lease and other loans

	% rate in force	2007	2006	2007	2006
		Ls	Ls	EUR	EUR
Long-term:					
SIA Hanza līzings	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	642 671	235 300	914 438	334 802
SIA Nordea līzings	6 mon. Libor +1.5-2.25%;6 mon. Euribor+1.2%	44 778	119 076	63 713	169 430
SIA Hanza līzings	3 mon. Rigibor+0.8-1.92%	21 570	225	30 691	320
Other loans			21 570		30 691
		709 019	376 171	1 008 843	535 243
Short-term:					
SIA Hanza līzings	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	251 464	137 264	357 801	195 309
SIA Nordea līzings	6 mon. Libor+1.5-2.25%; 6 mon. Euribor+1.2%	75 060	87 100	106 801	123 932
SIA Hanza līzings	3 mon. Rigibor+0.8-1.92%	454	3 248	646	4 621
Other loans			214		304
		326 978	227 826	465 248	324 167

22. Taxes payable

	06.12.31	Paid in 2007	Calculated in 2007	07.12.31
	Ls	Ls	Ls	Ls
Company Income Tax	(89 549)	(60 235)	65 020	35 706
VAT	(193 502)	496 930	607 775	(82 657)
VAT on the boarder	(1 095)	39 045	39 670	(470)
Peoples Income Tax	13 967	197 105	228 401	45 263
Compulsory Payments of Social Insurance Tax	3 636	321 736	336 328	18 228
Natural Resources Tax	392	392	150	150
Property Tax	3 051	12 318	11 551	2 285
URN	(250)	1 109	439	(920)
Taxes pursuant to other legislation				6406
	EUR	EUR	EUR	EUR
Company Income Tax	(127 417)	(85 707)	92 515	50 805
VAT	(275 329)	707 068	864 786	(117 610)
VAT on the boarder	(1 558)	55 556	56 445	(669)
Peoples Income Tax	19 873	280 455	324 985	64 403
Compulsory Payments of Social Insurance Tax	5 174	457 789	478 552	25 936
Natural Resources Tax	558	558	213	213
Property Tax	4 341	17 526	16 436	3 251
URN	(356)	1 578	625	(1 309)
Taxes pursuant to other legislation				9 115

In compliance with the law on taxes in force in the Republic of Latvia, Company Income Tax is paid in advance. Consequently, after a year of account, when the due tax is calculated, the due tax or surplus payment is established.

23. Other liabilities

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Wages	129 326	59 445	184 014	84 583
Payments in private pension funds	1 573	6 803	2 238	9 680
Other	10 983		15 627	0
	141 882	66 248	201 880	94 262

24. Accrued liabilities

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Accrued for holidays	61 140	47 612	86 994	67 746
	61 140	47 612	86 994	67 746

25. Incomes from the next periods

	2007	2006	2007	2006
	Ls	Ls	EUR	EUR
Long-term:				
Project No. 124000041	68 452	79 705	97 398	113 410
Project No.04/415034/0002/023	29 918	34 906	42 569	49 667
	98 370	114 611	139 968	163 077
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No.04/415034/0002/023	4 988	4 988	7 097	7 097
	16 241	16 241	23 109	23 109

26. Expenditures due to the environment protection

The basic economic activity of the Holding is production of timber. As a wrapping material is used polyethylene plastic. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related to financial losses and significant loss of funds arising from penalty fee payments, there has been concluded agreement with Green Belt Ltd. on collection, transportation, recycling and regeneration of used wrapping material so that it corresponds with the requirements of normative acts, planning and organization of the said work. During maintenance work various oil filters and oils are replaced. They are collected in special places and then handed over to BAO Ltd. on which there has been concluded a special agreement on collection of hazardous waste. In this way the Holding meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, int.al. unplanned taxes and decreased ecological risks in all objects.

27. Transactions with associated persons

There have not been issued or received any guarantees for securing the claims of the debtors or creditors of associated persons. At the end of the accounting year the Holding has not made any accruals for doubtful debts related with associated persons.

In this financial statement, the companies which belong to the Holding of the joint-stock company Saldus mežrūpniecība, i.e. Pakuļi Sports Centre Ltd. ooo Saldus and ooo Saldus Ļes are seen as associated companies of the Holding's parent company. Also, the important shareholders of the joint-stock company Saldus mežrūpniecība such as SEZ Laskana Ltd. and Saldus mežrūpniecības uzņēmums Ltd. are seen as the Holding's associated persons.

In the accounting period, the joint-stock company Saldus mežrūpniecība wrote out bills of landing to the SEZ Laskana Ltd. in the amount of 2 216 567 Ls (in 2006- 360653 Ls) for delivered timber, but for delivered woodchips and cuttings in the amount of 5598 Ls (in 2006- 67156 Ls). In the balance sheet post of the joint-stock company Saldus mežrūpniecība "Debts of Buyers and Customers" in 2006 there is shown a remainder of 75 288 Ls (in 2006- 17388 Ls).

In the accounting year, the joint-stock company Saldus mežrūpniecība wrote out bills of landing to Saldus mežrūpniecības uzņēmums Ltd. for delivered timber in the amount of 2294 Ls (in 2006- 1365 Ls), for timber related services in the amount of 7728 Ls (in 2006- 77 Ls), for the lease of premises in the amount of 2491 Ls (in 2006- 245 Ls), for spare parts and other services in the amount of 15 201 Ls (in 2006 – 18404 Ls). In the balance sheet post of the joint-stock company Saldus mežrūpniecība "Debts of Buyers and Customers" in 2006 there is shown a remainder of 3454 Ls (in 2006- 5227 Ls).

In the accounting year, the joint-stock company Saldus mežrūpniecība wrote out bills of landing to Pakuļi Sports Centre Ltd. for the lease of shooting equipment and other services in the amount of 4468 Ls (in 2006- 2089 Ls). In the balance sheet post of the joint-stock company Saldus mežrūpniecība "Debts of Buyers and Customers" in 2007 there are not liabilities (in 2006 the remainder of liabilities was 2089 Ls).

In the accounting year, the SEZ Laskana Ltd. did not write out any bills of landing to the joint-stock company Saldus mežrūpniecība for the selling of round timber (in 2006- 68258 Ls); for other services it wrote out a bill of landing for the amount of 1902 Ls (in 2006- 1788 Ls).

In the balance sheet post "Debts to Suppliers and Contractors" the joint-stock company Saldus mežrūpniecība in 2007 there are not any remainders of liabilities (in 2006- there are not remainders of liabilities).

In the accounting year, the Saldus mežrūpniecības uzņēmums Ltd. wrote out bills of landing to the joint-stock company Saldus mežrūpniecība for the selling of round timber in the amount of 363184 Ls (in 2006- 257751 Ls); for rendered timber related services in the amount of 337463 Ls (in 2006- 75191 Ls); for other services and materials in the amount of 1262 Ls (in 2006- 2397 Ls).

In the balance sheet post of the joint-stock company Saldus mežrūpniecība “Debts of Buyers and Customers” in 2006 there is shown a remainder for the amount of 169345 Ls (in 2006- 116488 Ls).

In the accounting year, the ooo Saldus wrote out bills of landing to the joint-stock company Saldus mežrūpniecība for the delivery of round timber in the amount of 201296 Ls (in 2006- 128349 Ls). In 2007, the joint-stock company Saldus mežrūpniecība made an advance payment for the delivery of round timber in the amount of 239969 Ls as the result of which in the balance sheet of the joint-stock company Saldus mežrūpniecība there is shown an advance payment in the amount of 125014 Ls. In the consolidated balance sheet the result is excluded.

In 2005, there was purchased a subsidiary company Pakuļi Sports Centre Ltd. for the amount of 146 000 Ls. Due to this purchase in the balance sheet of the joint-stock company Saldus mežrūpniecība arises an intangible value in the amount of 132 000 Ls (see paragraph 13 of the annex Intangible investments).

At the end of 2005 and the beginning of 2006, in Pskov Region of the Russian federation there were founded two subsidiary companies ooo Saldus which investment in capital is in the amount of 5162 Ls, and ooo Saldus Ļes with the common goal for both companies to carry out logging and timber processing activities. In 2007, there was made an additional investment in the core capital in the amount of 194714 Ls and on 31.12.2007 it makes the total amount of 194918 Ls (in 2006- 205 Ls). There was concluded a contract about the purchase of a real estate- buildings which are still unfinished so that there could be located a timber processing line purchased in Finland. In order to purchase a real estate with the total are of 2.8 ha on which there is situated a building with the total area under roof of 3600 m² for the amount of 15 064 000 RUB (there has already been granted a loan in the amount of 467 369 Ls (in 2006- 170 276 Ls) which in the balance sheet of the joint-stock company Saldus mežrūpniecība is shown in the post “Loans to Associated Companies”).

In the accounting year, the joint-stock company Saldus mežrūpniecība sold its capital assets to ooo Saldus in the amount of 56338 Ls. In the balance sheet post of the joint-stock company Saldus mežrūpniecība “Debts of Buyers and Customers” in 2007 the reminder of liabilities is 56338 Ls (in 2006 there was not a reminder of liabilities).

In the accounting period, the joint-stock company Saldus mežrūpniecība granted a loan to its subsidiary company Pakuļi Sports Centre Ltd. to landscape its territory and for its development in the amount of 17000 Ls (in 2006- 85 672 Ls) of which in 2006 there was paid back a loan in the amount of 58 672 Ls. From the Holding's balance sheet there is excluded the reminder of liabilities in the amount of 54 000 Ls (in 2006- 37 000 Ls) which is shown in the balance sheet post of the joint-stock company Saldus mežrūpniecība “Loans to Associated Companies”.

28. Financial instruments

The main financial instruments of the Holding are granted and received short-term loans, money, short-term deposits and financial lease. The main objective of these financial instruments is to secure the financing of Holding's economic activity. Also, the holding comes in touch with some other financial instruments, for example, debts of buyers and customers and debts of other debtors, debts to suppliers and constructors and other debtors which directly arise from its economic activity.

Financial risks

The main financial risks related to the Holding's financial instruments are: credit risk, currency risk, interest risk and liquidity risk.

Credit risk

The parent company of the Holding and the Holding itself is subjected to credit risks which arise from the debts of buyers and customers, short and long-term loans.

The Holding controls its credit risks by constantly estimating the history of how debtors pay back their debts and by establishing crediting conditions for each customer separately. Besides, the company constantly monitors the reminders of debtors' debts in order to decrease the possible of arising of unrecoverable debts. The Holding does not possess a significant concentration of credit risks towards a particular partner or similar transactions with a group of partners.

Foreign currency risk

To the financial assets which are under foreign currency risk belong money and its equivalents, debts of buyers and customers, advance payments for construction work, short-term loans, debts to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The holding does not use any financial instruments to administrate currency fluctuations risks.

Interest risk

The companies which belong to the Holding are subjected to the interest risk; mainly they are loans from crediting institutions and leasing companies.

The management of the Holding think that the financial assets and liabilities of the Holding on December 31, 2007 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

Liquidity risk

The Holding is controlling its liquidity risk by securing relevant financing, by using credit lines and loans granted by the bank and its parent company, by planning terms of paying back loans, by establishing and analyzing cash flows of the next periods arising from existing and planned loans and interest fees due. The system on how to prepare the Holding's budget is very useful and helpful in the process of management and control of liquidity risks.

Real value

All financial assets and liabilities of the Holding which are not shown in their real value- money, debtors, other debtors, received and granted loans, debts to suppliers and contractors and the balance value of other debts correspond with their real value.

29. Events after the year of account

Except from what was said in the management statement in the period from the last day of the year of account until the date of signing this financial statement there have not occurred any events due to which there should have been done any amendments or corrections in this financial statement.



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Joint Stock Company "SALDUS MEŽRŪPNIECĪBA"

Report on the Financial Statements

We have audited 2007 consolidated financial statements of Joint Stock Company "SALDUS MEŽRŪPNIECĪBA" and its subsidiary (hereinafter- the Group), which are set out on pages 5 to 31 of the accompanying 2007 financial statements and which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Financial Statements

The Company's 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 of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, as adopted by Latvian Association of certified auditors. 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 consolidated 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 consolidated 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.

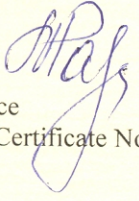
Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, 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 the Management report

We have read the Management Report set out on page 4 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the consolidated financial statements for 2007.

Certified auditors' company Pagrabnieces Auditoru Birojs, SIA
Audit company license No.8


Nellija Pagrabniece
Certified auditor Certificate No.87

Rīga,
April 14, 2008