

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

(REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF THE YEAR 2007**

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

**Saldus, 2007**

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## **Council of joint-stock “Saldus mežrūpniecība”**

Chairman of the council:

Jēkabs Feikners ( until 06.03.2007 )

Vice-chairman of the council:

Alvis Spārns

Members of the council:

Edgars Gailītis  
Vēsmiņš Gunvaldis  
Gunta Zoltnere

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

## **Board of joint-stock company “Saldus mežrūpniecība”**

Director of the board:

Jānis Bertrāns

Members of the board:

Ivars Feikners  
Gundars Maurs

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

## Consolidated profit - loss calculation

	Note	31.03.2007 Ls	31.03.2006 Ls	31.03.2007 EUR	31.03.2006 EUR
Net turnover		2 951 919	2 195 950	4 200 202	3 124 555
Production costs of sold products		(2 481 626)	(1 944 192)	(3 531 036)	(2 766 336)
<b>Gross profit</b>		<b>470 293</b>	<b>251 758</b>	<b>669 167</b>	<b>358 219</b>
Selling costs		(4 201)	(421)	(5 977)	(599)
General and administration costs		(105 597)	(35 202)	(150 251)	(50 088)
Other income from economic activity		4 990	19 614	7 100	27 908
Other expenses from economic activity		(117 562)	(7 235)	(167 276)	(10 294)
<b>Profit or loss from economic activity</b>		<b>247 923</b>	<b>228 514</b>	<b>352 763</b>	<b>325 146</b>
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		102	4 386	145	6 241
Other interest payments and the like costs		(40 028)	(13 986)	(56 955)	(19 900)
<b>Profit or loss before extraordinary items and taxes</b>		<b>207 997</b>	<b>218 914</b>	<b>295 953</b>	<b>311 487</b>
Extraordinary incomes					
Extraordinary costs					
<b>Profit or loss before taxes</b>		<b>207 997</b>	<b>218 914</b>	<b>295 953</b>	<b>311 487</b>
Company's income tax		(21 809)	(14 919)	(31 031)	(21 228)
Deffered company's income tax		4 366		6 212	-
Other taxes		(9 914)	(3 926)	(14 106)	(5 586)
<b>Profit or (loss),</b>		<b>180 640</b>	<b>200 069</b>	<b>257 028</b>	<b>284 673</b>
<b>Profit/ (loss) per share</b>					
<i>lats per share / EUR per share</i>		<i>0,47</i>	<i>0,52</i>	<i>0,66</i>	<i>0,74</i>

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

## Consolidated balance-sheet

Asset	Assets			
	31.03.2007.	31.12.2006.	31.03.2007.	31.12.2006.
Note	Ls	Ls	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	7 987	8 229	11 364	11 709
Intangible value of the company	132 000	132 000	187 819	187 819
Advanced payments for intangible investments	29 300	23 250	41 690	33 082
TOTAL	<b>169 287</b>	<b>163 479</b>	<b>240 874</b>	<b>232 610</b>
Fixed assets				
Land, buildings and constructions	2 174 481	1 067 250	3 094 008	1 518 560
Equipment and mashinery	2 373 865	2 264 470	3 377 706	3 222 051
Other fixed assets	40 321	33 854	57 372	48 170
Unfinished constructions	672 509	1 410 819	956 894	2 007 415
Advance payments for fixed assets		121 423	-	172 769
TOTAL	<b>5 261 176</b>	<b>4 897 816</b>	<b>7 485 979</b>	<b>6 968 964</b>
Long-term financial investments				
Partnership in the capital of related companies			-	-
Loans to related companies			-	-
TOTAL	-	-	-	-
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>5 430 463</b>	<b>5 061 295</b>	<b>7 726 853</b>	<b>7 201 574</b>
<b>WORKING CAPITAL</b>				
Reserves				
Raw materials, direct materials, auxiliary materials	11 691	10 842	16 635	15 427
Unfinished production	1 039 702	731 236	1 479 363	1 040 455
Made production and goods for selling	81 154	55 315	115 472	78 706
Advance payments for goods	53 377	77 934	75 949	110 890
TOTAL	<b>1 185 924</b>	<b>875 327</b>	<b>1 687 418</b>	<b>1 245 478</b>
Debtors				
Debts of buyers and customers	648 036	429 112	922 072	610 571
Other debtors	252 628	320 300	359 457	455 746
Expenses of the following periods	46 151	6 614	65 667	9 411
TOTAL	<b>946 815</b>	<b>756 026</b>	<b>1 347 196</b>	<b>1 075 728</b>
Money and its equivalents	129 705	87 744	184 554	124 848
<b>TOTAL WORKING CAPITAL</b>	<b>2 262 444</b>	<b>1 719 097</b>	<b>3 219 168</b>	<b>2 446 055</b>
<b>TOTAL ASSETS</b>	<b>7 692 907</b>	<b>6 780 392</b>	<b>10 946 021</b>	<b>9 647 629</b>

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

## Consolidated balance-sheet (continuation)

	31.03.2007.	31.12.2006.	31.03.2007.	31.12.2006.
Note	Ls	Ls	EUR	EUR
<b>OWN CAPITAL</b>				
Share capital	387 136	387 136	550 845	550 845
Increase of the price of issue of shares	1 987	1 987	2 827	2 827
Adjustment reserve of foreign currency	(14 853)	(2)	(21 134)	(3)
Other reserves	2 056 620	2 056 620	2 926 307	2 926 307
Retained earnings from the previous year	228 498	(7 235)	325 123	(10 294)
Retained earnings of the year of account	180 640	235 733	257 028	335 418
<b>TOTAL</b>	<b>2 840 028</b>	<b>2 674 239</b>	<b>4 040 996</b>	<b>3 805 099</b>
<b>TOTAL OWN CAPITAL</b>	<b>2 840 028</b>	<b>2 674 239</b>	<b>4 040 996</b>	<b>3 805 099</b>
<b>CREDITORS</b>				
<b>Long-term creditors</b>				
Company's deferred income tax	236 819	236 819	336 963	336 963
Long-term loans from credit institutions	2 151 064	1 886 023	3 060 688	2 683 569
Financial lease liabilities long-term part	504 700	376 171	718 123	535 243
Deferred incomes long-term part	114 611	114 611	163 077	163 077
<b>TOTAL</b>	<b>3 007 194</b>	<b>2 613 624</b>	<b>4 278 852</b>	<b>3 718 852</b>
<b>Short-term creditors</b>				
Short-term loans from credit institutions	636 926	624 579	906 264	888 696
Financial lease liabilities short-term part	270 937	227 826	385 509	324 167
Advanced payments received from customers	15 206	108 458	21 636	154 322
Debts to suppliers and contractors	782 127	380 041	1 112 866	540 750
Accrued liabilities	47 612	47 612	67 746	67 746
Debts to related companies			-	-
Taxes payable	15 624	21 524	22 231	30 626
Other creditors	61 012	66 248	86 812	94 262
Incomes from following periods short-term part	16241	16241	23 109	23 109
Unpaid dividends from previous years			-	-
<b>TOTAL</b>	<b>1 845 685</b>	<b>1 492 529</b>	<b>2 626 173</b>	<b>2 123 677</b>
<b>TOTAL CREDITORS</b>	<b>4 852 879</b>	<b>4 106 153</b>	<b>6 905 025</b>	<b>5 842 529</b>
<b>TOTAL LIABILITIES</b>	<b>7 692 907</b>	<b>6 780 392</b>	<b>10 946 021</b>	<b>9 647 629</b>

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

**Consolidated cash flow account**

<b>I. Cash flow from basic activity</b>		<b>31.03.2007</b>	<b>31.03.2006</b>	<b>31.03.2007</b>	<b>31.03.2006</b>
		<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
<b>1. Profit (+) or loss (-) before extraordinary items and taxes</b>		<b>208 026</b>	<b>200 069</b>	<b>295 994</b>	<b>284 673</b>
a) wear and tear of fixed assets and intangible investments (+)		119 870	78 977	170 560	112 374
b) elimination of fixed assets and intangible investments		29 151		41 478	-
c) formation of accruals (except the accruals for insecure debts)				-	-
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign				-	-
e) incomes from the acknowledgement of financing				-	-
f) other interest incomes and the like incomes		(102)		(145)	-
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		40 028		56 955	-
<b>2. Profit or loss before the corrections of impact of changes of</b>		<b>396 973</b>	<b>279 046</b>	<b>564 842</b>	<b>397 047</b>
a) increase of the remainder of debtors' debts (-) or decrease (+)		(72 998)	77 152	(103 867)	109 777
b) increase of the remainder of reserves (-) or decrease (+)		(335 154)	135 805	(476 881)	193 233
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		193 802	(492 011)	275 755	(700 069)
<b>3 Gross cash flow from basic activity</b>		<b>182 623</b>	<b>(8)</b>	<b>259 849</b>	<b>(11)</b>
4. Expenditures to interest payers		(40 028)		(56 955)	-
5. Expenditures for paying company's income tax and immovable property tax		(31 834)		(45 296)	-
<b>6. Cash flow before extraordinary items</b>		<b>110 761</b>	<b>(8)</b>	<b>157 599</b>	<b>(11)</b>
7. Cash flow from extraordinary items					
<b>Net cash flow from basic activity</b>		<b>110 761</b>	<b>(8)</b>	<b>157 599</b>	<b>(11)</b>
<b>II. Cash flow from investment activities</b>					
1. Purchase or alienation of shares or parts of related or associated companies				-	-
2. Granted loans			(5 000)	-	(7 114)
3. Purchase of fixed assets and intangible assets		(1 371 924)	(95 297)	(1 952 072)	(135 595)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		853 684		1 214 683	-
5. Incomes from selling fixed assets and intangible investments			19 614	-	27 908
6. Received interest		102		145	-
<b>6. Net cash flow from investing activities</b>		<b>(518 138)</b>	<b>(80 683)</b>	<b>(737 244)</b>	<b>(114 802)</b>
<b>III. Cash flow from financing activities</b>					
1. Received loans		581 287	75 809	827 097	107 866
2. Received financing from the EU				-	-
3. Received investment in capital				-	-
4. Expenditures to pay back loans		(40 855)	(141 010)	(58 131)	(200 639)
5. Expenditures for redemption of a hired fixed asset		(91 190)		(129 752)	-
6. Disbursed dividends				-	-
<b>6. Net cash flow from financing activity</b>		<b>449 242</b>	<b>(65 201)</b>	<b>639 214</b>	<b>(92 773)</b>
<b>IV. Result of fluctuations of the exchange rate of foreign currency</b>		<b>96</b>	<b>(522)</b>	<b>137</b>	<b>(743)</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>		<b>41 961</b>	<b>(146 414)</b>	<b>59 705</b>	<b>(208 328)</b>
VI. Remainder of money or its equivalents at the beginning of the year of		87 744	962 727	124 848	1 369 837
VII. Remainder of money or its equivalents at the end of the year of		129 705	816 313	184 554	1 161 509

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

## Consolidated account of the changes in own capital

	Share capital	Currency fluctuations due to recalculation of foreign	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(los s) of the year of account	Total own capital
	Ls		Ls	Ls	Ls	Ls	Ls
<b>31.12.2005.</b>	<b>387 136</b>		<b>1 987</b>	<b>1 126 512</b>	<b>(4 420)</b>	<b>1 089 890</b>	<b>2 601 105</b>
Distribution of the profit of year 2005	-		-	930 108	(2 815)	(927 293)	-
Disbursed dividends	-		-			(162 597)	(162 597)
Profit of the year of account, correcte	-		-			235 733	235 733
<b>31.12.2006.</b>	<b>387 136</b>		<b>1 987</b>	<b>2 056 620</b>	<b>(7 235)</b>	<b>235 733</b>	<b>2 674 241</b>
Currency fluctuations due to recalculation		(14 853)					(14 853)
Reserves of recalculation	-		-	-	235 733	(235 733)	-
Distribution of the profit of year 2006	-		-				-
Estimated dividends	-		-				-
Profit of the year of account	-		-	-		180 640	180 640
<b>31.03.2007</b>	<b>387 136</b>	<b>(14 853)</b>	<b>1 987</b>	<b>2 056 620</b>	<b>228 498</b>	<b>180 640</b>	<b>2 840 028</b>

### joint-stock company Saldus mežrūpniecība

	Share capital	Currency fluctuations due to recalculation of foreign currency	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(los s) of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2005</b>	<b>550 845</b>		<b>2 827</b>	<b>1 602 883</b>	<b>(6 290)</b>	<b>1 550 774</b>	<b>3 701 039</b>
Currency fluctuations due to recalculation							-
Distribution of the profit of year 2005	-		-	1 323 424	(4 005)	(1 319 419)	-
Disbursed dividends	-		-			(231 355)	(231 355)
Profit of the year of account, corrected	-		-			335 418	335 418
<b>31.12.2006.</b>	<b>550 845</b>	<b>-</b>	<b>2 827</b>	<b>2 926 307</b>	<b>(10 295)</b>	<b>335 418</b>	<b>3 805 102</b>
Currency fluctuations due to recalculation		(21 134)					(21 134)
Reserves of recalculation	-		-	-		-	-
Distribution of the profit of year 2006	-		-		335 418	(335 418)	-
Disbursed dividends	-		-				-
Profit of the year of account	-		-	-		257 028	257 028
<b>31.03.2007.</b>	<b>550 845</b>	<b>(21 134)</b>	<b>2 827</b>	<b>2 926 307</b>	<b>325 123</b>	<b>257 028</b>	<b>4 040 996</b>

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board



## Annex to the financial statement

### 1. Corporate information

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

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

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

1. Name of the company	Pakuļu sporta bāze / Pakuļi Sports Centre
Legal status of the company	Limited liability company
Registration number, registration date in commercial register	48503009010 November 21, 2002
Address	Mežvidi, Novadnieku pag. Saldus rajons LV 3801
Main types of business	Hunting and related services. Shooting practice and organization of shooting competitions with hunting weapons
Owner of the company	Joint-stock company Saldus mežrūpniecība, 100%
Period of account	January 1- March 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	Logging
Owners of the company	Joint-stock company Saldus mežrūpniecība - 99% Kolosovs Sergejs - 1%
Period of account	January 1- March 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 Russia, Pskov Region
Adrese	Konnaja 2-214, Pskov, Russia 180007
Main types of business	Purchase of timber
Owners of the company	Joint-stock company Saldus mežrūpniecība – 100 %
Period of account	January 1- March 31, 2007

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## 2. Important accounting principles

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

### *Principles of preparation of financial statement*

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

### *Currency and units used in the preparation of the financial statement*

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

### *Consolidation*

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

### *Consolidation of foreign subsidiary companies*

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

### *Changes in the accounting principles*

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

#### *Use of International Financial Reporting Standards (IFRS):*

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

**2. Important accounting principles (continuation)***Use of calculation (continuation)*

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

*Operations in foreign currency*

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

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

	31.03.2007.	31.03.2006.
USD/ LVL	0,528	0,582
RUB/ LVL	0.0203	0.0210
EUR/ LVL	0,702804	0.702804

*Intangible investments*

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

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

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

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

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

## 2. Important accounting principles (continuation)

### *Fixed assets*

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

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

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

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

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

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

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

### *Decrease of the value of assets*

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

### *Costs of loans*

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

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## **2. Important accounting principles (continuation)**

### *Leasing*

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

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

### *Reserves*

#### *Unfinished production*

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

Materials are accounted in their purchase costs.

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

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

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

### *Debts of buyers and customers and other debtors*

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

### *Money and its equivalents*

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

### *Share capital*

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

### *Profit per share*

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

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## 2. Important accounting principles- income acknowledgement (continuation)

### *Credits and loans*

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

Further loans will be shown in their amortized value.

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

### *Accruals*

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

### *Accruals and deferred liabilities*

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

### *Income acknowledgement*

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

#### *Rendering of services*

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

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

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

#### *Sale of goods*

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

#### *Interest*

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

#### *Dividends*

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

#### *Leasing incomes*

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

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## 2. Important accounting principles- income acknowledgement (continuation)

### *Taxes*

#### *Company's income tax*

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

#### *Deferred income tax*

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

#### *Possible liabilities and assets*

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

#### *Employee benefits*

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

#### *Connected persons*

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

#### *Events after the end of the year of account*

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

**2. Segments of the holding company's activity**

	logging		wood processing		Other undividable		Total	
	31.03.2007	31.03.2006	31.03.2007	31.03.2006	31.03.2007	31.03.2006	31.03.2007	31.03.2006
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Net turnover	2 108 068	1 537 165	764 554	439 190	79 297	219 595	2 951 919	2 195 950
Production costs of sold production	(1 786 243)	(1 360 934)	(630 923)	(388 839)	(64 460)	(194 419)	(2 481 626)	(1 944 192)
Selling costs	(4 201)	(295)		(84)		(42)	(4 201)	(421)
General and administration costs	(78 484)	(24 641)	(21 073)	(7 040)	(6 040)	(3 521)	(105 597)	(35 202)
Other incomes/ (expenditures)	(1 243)	8 665	(112 609)	2 476	1 280	1 238	(112 572)	12 379
from economic activity								
<b>Segment's profit</b>	<b>237 897</b>	<b>159 960</b>	<b>(51)</b>	<b>45 703</b>	<b>10 077</b>	<b>22 851</b>	<b>247 923</b>	<b>228 514</b>
Incomes from participation in the company's capital							-	-
Financial costs, net	(5 486)	(6 720)	(3 357)	(1 920)	(31 083)	(960)	(39 926)	(9 600)
Company's income tax (undivided)					(17 443)	(14 919)	(17 443)	(14 919)
Other taxes	(3 251)	(2 748)	(5 729)	(785)	(934)	(393)	(9 914)	(3 926)
<b>Net result</b>	<b>229 160</b>	<b>150 492</b>	<b>(9 137)</b>	<b>42 998</b>	<b>(39 383)</b>	<b>6 579</b>	<b>180 640</b>	<b>200 069</b>
Segment's assets	5 385 035	3 660 490	1 538 581	1 045 854	769 291	522 927	7 692 907	5 229 271
Segment's liabilities	769 291	3 437 087	2 307 872	1 045 854	4 615 744	746 330	7 692 907	5 229 271

  

	logging		wood processing		Other		Total	
	31.03.2007	31.03.2006	31.03.2007	31.03.2006	31.03.2007	31.03.2006	31.03.2007	31.03.2006
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	2 999 511	2 187 189	1 087 862	624 911	112 829	312 456	4 200 202	3 124 555
Production costs of sold production	(2 541 595)	(1 936 435)	(897 723)	(553 268)	(91 718)	(276 633)	(3 531 036)	(2 766 336)
Selling costs	(5 977)	(420)	-	(120)	-	(60)	(5 977)	(599)
General and administration costs	(111 673)	(35 061)	(29 984)	(10 017)	(8 594)	(5 010)	(150 251)	(50 088)
Other incomes/ (expenditures) from economic activity	(1 769)	12 329	(160 228)	3 523	1 821	1 762	(160 176)	17 614
<b>Segment's profit</b>	<b>338 497</b>	<b>227 603</b>	<b>(73)</b>	<b>65 030</b>	<b>14 338</b>	<b>32 514</b>	<b>352 763</b>	<b>325 146</b>
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(7 806)	(9 562)	(4 777)	(2 732)	(44 227)	(1 366)	(56 810)	(13 660)
Company's income tax (undivided)	-	-	-	-	(24 819)	(21 228)	(24 819)	(21 228)
Other taxes	(4 626)	(3 910)	(8 152)	(1 117)	(1 329)	(559)	(14 106)	(5 586)
<b>Net result</b>	<b>326 065</b>	<b>214 131</b>	<b>(13 001)</b>	<b>61 181</b>	<b>(56 037)</b>	<b>9 361</b>	<b>257 028</b>	<b>284 673</b>
Segment's assets	7 662 215	5 208 408	2 189 204	1 488 116	1 094 602	744 058	10 946 021	7 440 582
Segment's liabilities	1 094 602	4 890 534	3 283 806	1 488 116	6 567 612	1 061 932	10 946 021	7 440 582



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

The holding company has disclosed information through business segments.

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

Description of segments:

#### *Logging*

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

#### *Wood processing*

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

#### *Other*

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

### 4. Net turnover through geographical segments.

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

	31.03.2007 Ls	31.03.2007 Ls	31.03.2007 EUR	31.03.2007 EUR
Incomes from sales including	2 841 306	2 138 435	4 042 814	3 042 719
Latvia	2 575 211	1 927 039	3 664 195	2 741 929
Russia	5 903		8 399	
European Union countries	260 192	211 396	370 220	300 789
Incomes from rendering of services, including	110 613	57 515	157 388	81 836
Latvia	110 613	57 515	157 388	81 836
	<b>2 951 919</b>	<b>2 195 950</b>	<b>4 200 202</b>	<b>3 124 555</b>

### 5. Financial instruments

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

#### *Financial risks*

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

#### *Credit risk*

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

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

#### *Foreign currency risk*

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

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

#### *Interest rate risk*

The holding company is subjected to the interest rate risk, which mainly are borrowings from credit institutions and financial leasing companies. Holding company's management think that on March 31, 2007 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

#### *Liquidity risk*

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

#### *Real value*

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

#### *6. Events after the end of the year of account*

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