

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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF THE YEAR 2007

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2007

CONTENT

Council of joint-stock company „Saldus mežrūpniecība”	3
Board of joint-stock company „Saldus mežrūpniecība”	3
Consolidates management report	4
Consolidated profit-loss statement	6
Consolidated balance-sheet	7
Consolidated balance-sheet (continuation)	8
Consolidated cash flow statement	9
Consolidated statement about changes in own capital	10
Annex to financial statements	11

Council of joint-stock “Saldus mežrūpniecība”

Chairman of the council:

Alvis Spārns

Vice-chairman of the council:

Gunta Zoltnere

Members of the council:

Gunvaldis Vēsmiņš
Edgars Gailītis
Māris Elleris

Board of joint-stock company “Saldus mežrūpniecība”

Director of the board:

Jānis Bertrāns

Members of the board:

Ivars Feikners
Gundars Maurs
Gatis Zommers

Joint - stock company „Saldus mežrūpniecība”

Consolidated situation report of the Management Board

Report of activities for the winter half of the year 2007

Description of business activities through the accounting period

Consolidated profit of the holding joint-stock company “Saldus mežrūpniecība” from its economic activity through the period of 6 months year 2007 after taxes is 283 828 LVL and, in its turn, consolidated profit per one emitted share of the joint-stock company “Saldus mežrūpniecība” is 0.73 LVL. Consolidated profit is smaller than the profit from economic activity of the joint-stock company “Saldus mežrūpniecība” (314 490 LVL) because companies with 100% capital of the joint-stock company “Saldus mežrūpniecība” did not produce any profit. ООО «Салдус лес» showed loss of 164 LVL, but “Pakuļi Sports Centre” Ltd. showed loss of 14 981 LVL. ООО «Салдус» showed loss of 15 517 LVL for the reason that the company purchased only 50% of the planned quantity of saw logs and carried out only 30% of the planned logging. The amount of logging sharply differs from the planned amount due to the fact that logging equipment was not delivered in due time as it was planned at the beginning of 2007 as a result of various bureaucratic obstacles and reasons. In January 2007 there was put into operation the new trading centre and in May there was put into operation the new building of repairs shop. Besides, in March there was invested money to modernize the fleet of logging machinery and equipment, accordingly, there was purchased a new forwarder John Deere 1110D for 154 617 LVL (VAT excluded). In January the joint-stock company “Saldus mežrūpniecība” delivered to Russia the purchased small-wood processing equipment, which is registered at ООО «Салдус - Лес» thus increasing its core capital for 70 000 LVL. The equipment is being installed.

Important events after the end of the year of account

Since the end of the period of account and until the time of signing the consolidated situation report there have not occurred any other significant events apart from the mentioned ones that might have had an impact on the financial situation of the company, which is recorded in the consolidated financial account.

Expected financial showings and business plans for the year 2007

Strategic tasks of the joint-stock company “Saldus mežrūpniecība” for the summer half 2007 are related to retaining its position the Latvia’s market of timber and wood products as well as to increasing company’s value by optimising its management and production costs and by continuing modernization of its fixed logging production assets. Besides, in the summer half 2007 will intensively be carried development of Russian subsidiary companies so that at the end of the year the mill in Russia would be launched. The planned scale of production of the joint stock company “Saldus mežrūpniecība” in 2007: in logging- 245 838 m³ of round timber, in processing- 22 438 m³ of sawn timber and 6 879 m³ of firewood. The planned turnover in 2007 is expected to be 11 849 379 LVL and profit is expected to reach 383 730 LVL. If the weather conditions in the autumn are favourable for logging and if the market of round timer does not considerably change, it is feasible that planned profit might be increased by 20-30%.

The planned turnover of “Pakuļi Sports Centre” is expected to reach 40 000 LVL and due to the construction of a shooting-range and landscaping of the nearby area the planned losses in 2007 are expected to reach 33 000 LVL. In order to carry out landscaping of the shooting-range and recreation complex on a large scale in comparison to what was previously planned, it is necessary to attract additional funds, which is being done.

Business and financial risks management policy

In order to distribute business risks among countries and fields of activity, at the end of 2005 and in 2006 the joint-stock company “Saldus mežrūpniecība” founded two subsidiary companies in the Russian Federation to carry out logging and production of sawn timber. In 2007 its economic activity continues ООО «Салдус»; the immovable property (land of 28 000 m² and buildings of 3 6000 m²), which was purchased in the name of ООО «Салдус - Лес», is intensively being developed with the intention that at the end of the year the mill will be launched. Further activity in Russia is planned with the intention that both Russia based companies cooperate. The immovable property and other operational assets will be shown on the balance-sheet of ООО «Салдус - Лес» and, in its turn,

OOO «Салдус» will carry out management and organization of production processes and will take on lease from OOO «Салдус - Лес» fixed assets needed for production and will invest its own current assets.

Throughout years by successfully distributing risks, the joint-stock company “Saldus mežrūpniecība” has invested its financial resources in liquid immovable property (forest land), the value of which through years has increased. This practise is being continued.

In 2007 there was launched the trading centre with total under-roof area 2 100 m² (5 blocks of shops), the activity of which is oriented towards letting out on hire premises. In the future the nearby territory of 1.5 ha must be developed. The trading centre is situated in a strategically favourable territory in Saldus at the highway Rīga-Liepāja.

August 22, 2007

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board

Consolidated profit - loss calculation

	Note	30.06.2007 Ls	30.06.2006 Ls	31.03.2007 EUR	31.03.2006 EUR
Net turnover		6 447 625	4 095 549	9 174 144	5 827 441
Production costs of sold products		(5 648 095)	(3 773 400)	(8 036 515)	(5 369 064)
Gross profit		799 530	322 149	1 137 629	458 377
Selling costs		(32 514)	(651)	(46 263)	(926)
General and administration costs		(188 429)	(88 081)	(268 110)	(125 328)
Other income from economic activity		89 192	23 030	126 909	32 769
Other expenses from economic activity		(250 137)	(16 969)	(355 913)	(24 145)
Profit or loss from economic activity		417 642	239 478	594 251	340 746
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		324	5 729	461	8 152
Other interest payments and the like costs		(100 048)	(27 551)	(142 355)	(39 202)
Profit or loss before extraordinary items and taxes		317 918	217 656	452 357	309 697
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		317 918	217 656	452 357	309 697
Company's income tax		(29 218)	(36 904)	(41 573)	(52 510)
Deferred company's income tax		4 955		7 050	-
Other taxes		(9 827)	(4 017)	(13 983)	(5 716)
Profit or (loss),		283 828	176 735	403 851	251 471
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		<i>0.73</i>	<i>0.46</i>	<i>1.04</i>	<i>0.65</i>

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board

Consolidated balance-sheet

Asset		Assets			
		30.06.2007	31.12.2006.	31.03.2007.	31.12.2006.
	Note	Ls	Ls	EUR	EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trade marks and the like costs		14,974	8,229	21,306	11,709
Intangible value of the company		132,000	132,000	187,819	187,819
Advanced payments for intangible investments		20,210	23,250	28,756	33,082
TOTAL		167,184	163,479	237,881	232,610
Fixed assets					
Land, buildings and constructions		2,341,804	1,067,250	3,332,087	1,518,560
Equipment and mashinery		2,234,805	2,264,470	3,179,841	3,222,051
Other fixed assets		30,504	33,854	43,403	48,170
Unfinished constructions		509,546	1,410,819	725,019	2,007,415
Advance payments for fixed assets		30,600	121,423	43,540	172,769
TOTAL		5,147,259	4,897,816	7,323,890	6,968,964
Long-term financial investments					
Partnership in the capital of related companies				-	-
Loans to related companies				-	-
TOTAL		-	-	-	-
TOTAL LONG-TERM INVESTMENTS		5,314,443	5,061,295	7,561,771	7,201,574
WORKING CAPITAL					
Reserves					
Raw materials, direct materials, auxiliary materials		49,212	10,842	70,022	15,427
Unfinished production		518,168	731,236	737,287	1,040,455
Made production and goods for selling		146,236	55,315	208,075	78,706
Advance payments for goods		40,773	77,934	58,015	110,890
TOTAL		754,389	875,327	1,073,399	1,245,478
Debtors					
Debts of buyers and customers		847,777	429,112	1,206,278	610,571
Other debtors		333,175	320,300	474,065	455,746
Expenses of the following periods		9,846	6,614	14,010	9,411
TOTAL		1,190,798	756,026	1,694,353	1,075,728
Money and its equivalents					
		157,829	87,744	224,570	124,848
TOTAL WORKING CAPITAL		2,103,016	1,719,097	2,992,322	2,446,055
TOTAL ASSETS		7,417,459	6,780,392	10,554,093	9,647,629

Board:

Jānis Bertrāns
Chairman of the boardIvars Feikners
Vice-chairman of the boardGundars Maurs
Member of the boardGatis Zommers
Member of the board

Consolidated balance-sheet (continuation)

		PASĪVS			
		30.06.2007	31.12.2006.	31.03.2007.	31.12.2006.
	Note	Ls	Ls	EUR	EUR
OWN CAPITAL					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Adjustment reserve of foreign currency		(772)	(2)	(1 098)	(3)
Other reserves		2 221 169	2 056 620	3 160 439	2 926 307
Retained earnings from the previous year		(32 835)	(7 235)	(46 720)	(10 294)
Retained earnings of the year of account		283 828	235 733	403 851	335 418
TOTAL		2 860 513	2 674 239	4 070 143	3 805 099
TOTAL OWN CAPITAL		2 860 513	2 674 239	4 070 143	3 805 099
CREDITORS					
Long-term creditors					
Company's deferred income tax		236 819	236 819	336 963	336 963
Long-term loans from credit institutions		229 244	1 886 023	326 185	2 683 569
Financial lease liabilities long-term part		446 861	376 171	635 826	535 243
Deferred incomes long-term part		114 611	114 611	163 077	163 077
TOTAL		1 027 535	2 613 624	1 462 051	3 718 852
Short-term creditors					
Short-term loans from credit institutions		532 448	624 579	757 605	888 696
Financial lease liabilities short-term part		255 029	227 826	362 874	324 167
Advanced payments received from customers		4 559	108 458	6 487	154 322
Debts to suppliers and contractors		568 865	380 041	809 422	540 750
Accrued liabilities		47 612	47 612	67 746	67 746
Debts to related companies				-	-
Taxes payable		8 365	21 524	11 902	30 626
Other creditors		93 371	66 248	132 855	94 262
Incomes from following periods short-term part		16241	16241	23 109	23 109
Unpaid dividends from previous years		2 921		4 156	-
TOTAL		1 529 411	1 492 529	2 176 156	2 123 677
TOTAL CREDITORS		2 556 946	4 106 153	3 638 206	5 842 529
TOTAL LIABILITIES		5 417 459	6 780 392	7 708 350	9 647 629

Board:

Jānis Bertrāns Chairman of the board	Ivars Feikners Vice-chairman of the board	Gundars Maurs Member of the board	Gatis Zommers Member of the board
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Consolidated cash flow account

I. Cash flow from basic activity		30.06.2007	30.06.2006	30.06.2007	30.06.2006
		Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes		317 918	217 656	452 357	309 697
a) wear and tear of fixed assets and intangible investments (+)		248 878	204 342	354 121	290 752
b) elimination of fixed assets and intangible investments		201 467		286 662	-
f) other interest incomes and the like incomes		(310)	(5 729)	(441)	(8 152)
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		97 170	27 551	138 260	39 202
2. Profit or loss before the corrections of impact of changes of		865 123	443 820	1 230 959	631 499
a) increase of the remainder of debtors' debts (-) or decrease (+)		(395 283)	130 428	(562 437)	185 582
b) increase of the remainder of reserves (-) or decrease (+)		80 329	15 423	114 298	21 945
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		100 669	(591 108)	143 239	(841 071)
3 Gross cash flow from basic activity		650 838	(1 437)	926 059	(2 045)
4. Expenditures to interest payers		(97 170)	(27 551)	(138 260)	(39 202)
5. Expenditures for paying company's income tax and immovable property tax		(34 165)	(40 921)	(48 612)	(58 225)
6. Cash flow before extraordinary items		519 503	(69 909)	739 186	(99 472)
7. Cash flow from extraordinary items					
Net cash flow from basic activity		519 503	(69 909)	739 186	(99 472)
II. Cash flow from investment activities					
1. Purchase or alienation of shares or parts of related or associated companies				-	-
2. Granted loans			(14 672)	-	(20 876)
3. Purchase of fixed assets and intangible assets		(1 698 178)	(212 634)	(2 416 290)	(302 551)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		996 136	(276 086)	1 417 374	(392 835)
5. Incomes from selling fixed assets and intangible investments			33 614	-	47 828
6. Received interest		310	5 729	441	8 152
6. Net cash flow from investing activities		(701 732)	(464 049)	(998 475)	(660 282)
III. Cash flow from financing activities					
1. Received loans		976 176	114 297	1 388 973	162 630
2. Received financing from the EU				-	-
3. Received investment in capital				-	-
4. Expenditures to pay back loans		(467 120)	(284 370)	(664 652)	(404 622)
5. Expenditures for redemption of a hired fixed asset		(159 860)		(227 460)	-
6. Disbursed dividends		(96 783)		(137 710)	-
6. Net cash flow from financing activity		252 413	(170 073)	359 151	(241 992)
IV. Result of fluctuations of the exchange rate of foreign currency		(99)	958	(141)	1 363
V. Net cash flow of the year of account increase (+), decrease (-)		70 085	(703 073)	99 722	(1 000 383)
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		157 829	259 654	224 570	369 454

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Gatis Zommers
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
31.12.2005.	387,136		1,987	1,126,512	(4,420)	1,089,890	2,601,105
Currency fluctuations due to recalculation		(2)					(2)
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
31.12.2006.	387,136	(2)	1,987	2,056,620	(7,235)	235,733	2,674,239
Currency fluctuations due to recalculation		(770)					(770)
Reserves of recalculation	-		-	-			-
Distribution of the profit of year 2006	-		-	164,549	(25,600)	(235,733)	(96,784)
Estimated dividends	-		-				-
Profit of the year of account	-		-	-		283,828	283,828
30.06.2007	387,136	(772)	1,987	2,221,169	(32,835)	283,828	2,860,513

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
31.12.2005	550,845		2,827	1,602,883	(6,289)	1,550,774	3,701,040
Currency fluctuations due to recalculation		(3)					(3)
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
31.12.2006.	550,845	(3)	2,827	2,926,307	(10,294)	335,418	3,805,100
Currency fluctuations due to recalculation		(1,096)					(1,096)
Reserves of recalculation	-		-	-		-	-
Distribution of the profit of year 2006	-		-	234,132	(36,426)	(335,418)	(137,712)
Disbursed dividends	-		-				-
Profit of the year of account	-		-	-		403,851	403,851
30.06.2007	550,845	(1,099)	2,827	3,160,439	(46,720)	403,851	4,070,143

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Gatis Zommers
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 result, from 2006 the joint-stock company "Saldus mežrūpniecība" prepare consolidated annual report., herein after Holding company.

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

1. Name of the company	Pakuļu sporta bāze / Pakuļi Sports Centre
Legal status of the company	Limited liability company
Registration number, registration date in commercial register	48503009010 November 21, 2002
Address	Mežvidi, Novadnieku pag. Saldus rajons LV 3801
Main types of business	Hunting and related services. Shooting practice and organization of shooting competitions with hunting weapons
Owner of the company	Joint-stock company Saldus mežrūpniecība, 100%
Year of account	January 1- Juny 30, 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%
Year of account	January 1- Juny 30, 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 %
Year of account	January 1- Juny 30, 2007

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, and collateral has made recalculation of data, that ensure for more easily usable for external user.

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.

	30.06..2007.	30.06..2006.
USD/ LVL	0,522	0,560
RUB/ LVL	0.0202	0.0207
EUR/ LVL	0,702804	0.702804

Intangible investments

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

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

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

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

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

2. Important accounting principles (continuation)

Fixed assets

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

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

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

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

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

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

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

Decrease of the value of assets

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

Costs of loans

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

2. Important accounting principles (continuation)

Leasing

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

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

Reserves

Unfinished production

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

Materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers and other debtors

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

Money and its equivalents

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

Share capital

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

Profit per share

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

2. Important accounting principles- income acknowledgement (continuation)

Credits and loans

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

Further loans will be shown in their amortized value.

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

Accruals

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

Accruals and deferred liabilities

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

Income acknowledgement

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

Rendering of services

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

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

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

Sale of goods

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

Interest

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

Dividends

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

Leasing incomes

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

2. Important accounting principles- income acknowledgement (continuation)

Taxes

Company's income tax

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

Deferred income tax

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

Possible liabilities and assets

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

Employee benefits

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

Connected persons

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

Events after the end of the year of account

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

2. Segments of the holding company's activity

	logging		wood processing		Other undividable		Total	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006	30.06.2007	30.06.2006	30.06.2007	30.06.2006
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Net turnover	3 853 737	2 866 884	1 680 665	819 110	913 223	409 555	6 447 625	4 095 549
Production costs of sold production	(3 505 946)	(2 641 380)	(1 530 081)	(754 680)	(612 068)	(377 340)	(5 648 095)	(3 773 400)
Selling costs	(32 514)	(456)		(130)		(65)	(32 514)	(651)
General and administration costs	(131 900)	(61 657)	(37 685)	(17 616)	(18 844)	(8 808)	(188 429)	(88 081)
Other incomes/ (expenditures)	125 403	4 243	(74 144)	1 212	(212 204)	606	(160 945)	6 061
from economic activity								
Segment's profit	308 780	167 634	38 755	47 896	70 107	23 948	417 642	239 478
Incomes from participation in the company's capital							-	-
Financial costs, net	(1 567)	(15 275)	(7 754)	(4 364)	(90 403)	(2 182)	(99 724)	(21 821)
Company's income tax (undivided)					(24 263)	(36 904)	(24 263)	(36 904)
Other taxes	(1 865)	(2 812)	(5 417)	(803)	(2 545)	(402)	(9 827)	(4 017)
Net result	305 348	149 547	25 584	42 729	(47 104)	(15 540)	283 828	176 735
Segment's assets	3 708 730	2 399 680	2 225 238	1 439 808	1 483 491	959 872	7 417 459	4 799 360
Segment's liabilities	4 450 475	2 879 616	741 746	479 936	2 225 238	1 439 808	7 417 459	4 799 360
	logging		wood processing		Other		Total	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006	30.06.2007	30.06.2006	30.06.2007	30.06.2006
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	5 483 374	4 079 208	2 391 371	1 165 489	1 299 399	582 744	9 174 144	5 827 441
Production costs of sold production	(4 988 512)	(3 758 345)	(2 177 109)	(1 073 813)	(870 894)	(536 906)	(8 036 515)	(5 369 064)
Selling costs	(46 263)	(649)	-	(185)	-	(92)	(46 263)	(926)
General and administration costs	(187 677)	(87 730)	(53 621)	(25 065)	(26 813)	(12 533)	(268 110)	(125 328)
Other incomes/ (expenditures) from economic activity	178 432	6 037	(105 497)	1 725	(301 939)	862	(229 004)	8 624
Segment's profit	439 354	238 522	55 143	68 150	99 753	34 075	594 251	340 746
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(2 230)	(21 734)	(11 033)	(6 209)	(128 632)	(3 105)	(141 894)	(31 048)
Company's income tax (undivided)	-	-	-	-	(34 523)	(52 510)	(34 523)	(52 510)
Other taxes	(2 654)	(4 001)	(7 708)	(1 143)	(3 621)	(572)	(13 983)	(5 716)
Net result	434 471	212 786	36 403	60 798	(67 023)	(22 111)	403 851	251 473
Segment's assets	5 277 047	3 414 437	3 166 228	2 048 662	2 110 818	1 365 775	10 554 093	6 828 874
Segment's liabilities	6 332 455	4 097 324	1 055 409	682 887	3 166 228	2 048 662	10 554 093	6 828 874

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.

	30.06.2007 Ls	30.06.2006 Ls	30.06.2007 EUR	30.06.2006 EUR
Incomes from sales including	6 236 793	3 959 892	8 874 157	5 634 419
Latvia	5 703 903	3 506 301	8 115 923	4 989 017
Russia	7 415		10 551	
European Union countries	525 475	453 591	747 684	645 402
Incomes from rendering of services, including	210 832	135 657	299 987	193 023
Latvia	206 066	135 657	293 206	193 023
Russia	4 766		6 781	
	6 447 625	4 095 549	9 174 144	5 827 441

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 December 31, 2006 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

Liquidity risk

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

Real value

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

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.

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board
