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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 9 MONTHS OF THE YEAR 2007

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Saldus, 2007

CONTENT

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

Consolidated profit - loss calculation

	Note	30.09.2007 Ls	30.09.2006 Ls	30.09.2007 EUR	30.09.2006 EUR
Net turnover		9 600 326	5 663 665	13 660 033	8 058 669
Production costs of sold products		(8 440 539)	(5 261 331)	(12 009 805)	(7 486 200)
Gross profit		**1 159 787**	**402 334**	**1 650 228**	**572 470**
Selling costs		(142 514)	(651)	(202 779)	(926)
General and administration costs		(272 965)	(127 629)	(388 394)	(181 600)
Other income from economic activity		91 647	22 722	130 402	32 330
Other expenses from economic activity		(344 156)	(31 469)	(489 690)	(44 776)
Profit or loss from economic activity		**491 799**	**265 307**	**699 767**	**377 498**
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		2 012	6 050	2 863	8 608
Other interest payments and the like costs		(150 711)	(42 192)	(214 442)	(60 034)
Profit or loss before extraordinary items and taxes		**343 100**	**229 165**	**488 187**	**326 072**
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		**343 100**	**229 165**	**488 187**	**326 072**
Company's income tax		(32 083)	(62 423)	(45 650)	(88 820)
Deffered company's income tax		8 513		12 113	-
Other taxes		(9 864)	(4 017)	(14 035)	(5 716)
Profit or (loss),		**309 666**	**162 725**	**440 615**	**231 537**
Profit/ (loss) per share					
lats per share / EUR per share		*0.80*	*0.42*	*1.14*	*0.60*

Board:

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

Consolidated balance-sheet

Asset	Note	30.09.2007 Ls	31.12.2006. Ls	30.09.2007 EUR	31.12.2006. EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trade marks and the like costs		13 915	8 229	19 799	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		**166 125**	**163 479**	**236 375**	**232 610**
Fixed assets					
Land, buildings and constructions		2 323 833	1 067 250	3 306 516	1 518 560
Equipment and mashinery		2 200 630	2 264 470	3 131 214	3 222 051
Other fixed assets		33 366	33 854	47 476	48 170
Unfinished constructions		567 524	1 410 819	807 514	2 007 415
Advance payments for fixed assets			121 423	-	172 769
TOTAL		**5 125 353**	**4 897 816**	**7 292 720**	**6 968 964**
Long-term financial investments					
Partnership in the capital of related companies				-	-
Loans to related companies				-	-
TOTAL		**-**	**-**	**-**	**-**
TOTAL LONG-TERM INVESTMENTS		**5 291 478**	**5 061 295**	**7 529 095**	**7 201 574**
WORKING CAPITAL					
Reserves					
Raw materials, direct materials, auxiliary materials		23 241	10 842	33 069	15 427
Unfinished production		1 094 663	731 236	1 557 565	1 040 455
Made production and goods for selling		106 772	55 315	151 923	78 706
Advance payments for goods		166 436	77 934	236 817	110 890
TOTAL		**1 391 112**	**875 327**	**1 979 374**	**1 245 478**
Debtors					
Debts of buyers and customers		828 543	429 112	1 178 910	610 571
Other debtors		248 860	320 300	354 096	455 746
Expenses of the following periods		39 686	6 614	56 468	9 411
TOTAL		**1 117 089**	**756 026**	**1 589 474**	**1 075 728**
Money and its equivalents		121 826	87 744	173 343	124 848
TOTAL WORKING CAPITAL		**2 630 027**	**1 719 097**	**3 742 191**	**2 446 055**
TOTAL ASSETS		**7 921 505**	**6 780 392**	**11 271 286**	**9 647 629**

Board:

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

Consolidated balance-sheet (continuation)

Passive

	Note	30.09.2007 Ls	31.12.2006. Ls	30.09.2007 EUR	31.12.2006. 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		15	(2)	21	(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		309 666	235 733	440 615	335 418
TOTAL		**2 887 138**	**2 674 239**	**4 108 027**	**3 805 099**
TOTAL OWN CAPITAL		**2 887 138**	**2 674 239**	**4 108 027**	**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		2 157 532	1 886 023	3 069 891	2 683 569
Financial lease liabilities long-term part		566 312	376 171	805 789	535 243
Deferred incomes long-term part		114 611	114 611	163 077	163 077
TOTAL		**3 075 274**	**2 613 624**	**4 375 721**	**3 718 852**
Short-term creditors					
Short-term loans from credit institutions		904 056	624 579	1 286 356	888 696
Fianacial lease liabilities short-term part		281 417	227 826	400 420	324 167
Advanced payments received from customers		3 542	108 458	5 040	154 322
Debts to suppliers and contractors		615 554	380 041	875 854	540 750
Accured liabilities		48 497	47 612	69 005	67 746
Debts to related companies				-	-
Taxes payable		12 888	21 524	18 338	30 626
Other creditorsi		73 977	66 248	105 260	94 262
Incomes from following periods short-term part		16241	16241	23 109	23 109
Unpayed dividends from previous years		2 921		4 156	-
TOTAL		**1 959 093**	**1 492 529**	**2 787 538**	**2 123 677**
TOTAL CREDITORS		**5 034 367**	**4 106 153**	**7 163 259**	**5 842 529**
TOTAL LIABILITIES		**7 921 505**	**6 780 392**	**11 271 286**	**9 647 629**

Board:

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

Consolidated cash flow account

I. Cash flow from basic activity	30.09.2007	30.09.2006	30.09.2007	30.09.2006
	Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes	**343 100**	**229 165**	**488 187**	**326 072**
a) wear and tear of fixed assets and intangible investments (+)	386 373	295 509	549 759	420 471
b) elimination of fixed assets and intangible investments	411 494		585 503	-
f) other interest incomes and the like incomes	(2 012)		(2 863)	-
g) writing off of long-term financial investments and short-term value of securities			-	-
h) interest payments and the like costs	150 711		214 442	-
2. Profit or loss before the corrections of impact of changes of	**1 289 666**	**524 674**	**1 835 029**	**746 544**
a) increase of the remainder of debtors' debts (-) or decrease (+)	(386 432)	245 146	(549 843)	348 811
b)increase of the remainder of reserves (-) or decrease (+)	(541 328)	(115 707)	(770 240)	(164 636)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)	184 517	(503 216)	262 544	(716 012)
3 Gross cash flow from basic activity	**546 423**	**150 897**	**777 490**	**214 707**
4. Expenditures to interest payers	(150 711)		(214 442)	-
5. Expenditures for paying companny's income tax and immovable property tax	(33 433)	(66 440)	(47 571)	(94 536)
6. Cash flow before extraordinary items	**362 279**	**84 457**	**515 477**	**120 171**
7.Cash flow from extraordinary items				
Net cash flow from basic activity	**362 279**	**84 457**	**515 477**	**120 171**
II. Cash flow from investment activities				
1. Purchase or alienation of shares or parts of related or associated companies			-	-
2. Granted loans		(48 672)	-	(69 254)
3. Purchase of fixed assets and intangible assets	(1 995 399)	(428 148)	(2 839 197)	(609 200)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.	967 759	(5 205)	1 376 997	(7 406)
5. Incomes from selling fixed assets and intangible investments		(958 318)	-	(1 363 564)
6. Received interest	2 012		2 863	-
6.Net cash flow from investing activities	**(1 025 628)**	**(1 440 343)**	**(1 459 337)**	**(2 049 423)**
III. Cash flow from financing activities				
1. Received loans	1 596 118	998 775	2 271 071	1 421 129
2. Received financing from the EU			-	-
3. Received investment in capital			-	-
4.Expenditures to pay back loans	(535 158)	(415 659)	(761 461)	(591 429)
5. Expenditures for redemtion of a hired fixed asset	(266 030)		(378 527)	-
6. Disbursed dividends	(96 783)	(162 579)	(137 710)	(231 329)
6. Net cash flow from financing activity	**698 147**	**420 537**	**993 374**	**598 370**
IV. Result of fluctuactions of the exchange rate of foreign currency	(716)		(1 019)	-
V. Net cash flow of the year of account increase (+), decrease (-)	**34 082**	**(935 349)**	**48 494**	**(1 330 882)**
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	121 826	27 378	173 343	38 955

Board:

Jānis Bertrāns	Ivars Feikners	Gundars Maurs	Gatis Zommers
Chairman of the board	Vice-chairman of the board	Member of the board	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/(loss) 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		17					17
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	-		-	-		309 666	309 666
30.09.2007	**387 136**	**15**	**1 987**	**2 221 169**	**(32 835)**	**309 666**	**2 887 138**

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/(loss) 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		128					128
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	-		-	-		440 614	440 614
2007.09.30	**550 845**	**125**	**2 827**	**3 160 439**	**(46 720)**	**440 614**	**4 108 130**

Board:

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

Annex to the financial statement

1. Corporative information

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

	30.09..2007.	**30.09..2006.**
USD/ LVL	0,497	0,552
RUB/ LVL	0.0199	0.0206
EUR/ LVL	0,702804	0.702804

Intangible investments

Intangible investments are accounted in their acquisition costs by using linear method, which is amortized during the productive time of the use of assets. If occur any events or changes of circumstances that show that the balance value of intangible investments could be irrecoverable, the corresponding value of intangible investments is reassessed in order to establish the decrease of its value. Losses, which occur due to the decreased of value, are admitted if the balance value of intangible investments exceeds the recoverable amount of money.
Intangible investments contain software licences, intangible value and other intangible investments, which are related with the activity of parent and subsidiary companies of the holding company.
Software licences, used in the holding company, are accounted in their acquisition value by taking away their accumulated amortization.
Amortization is calculated by the use of linear method during the productive time of their use.
Costs, which are related to the maintenance of software, are included in the profit or loss calculation as expenses.

2. Important accounting principles (continuation)

Fixed assets

Fixed assets are accounted in their initial costs except the accumulated wear and tear and the decrease of their value. Wear and tear of land is not calculated.
Wear and tear is calculated by the use of linear method in their productive time of use.

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

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

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

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

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

Decrease of the value of assets

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

Costs of loans

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

2. Important accounting principles (continuation)

Leasing

Financial leasing deals, within which all risks and rewards are assigned to the holding company and which result from proprietorship of the leasehold, in the balance are acknowledged as fixed assets for the amount of money, which correspond with the purchase value of the property taken on lease. Financial leasing payments are distributed between financial costs and the decrease of liabilities so that in each period they would secure constant interest rate of the remnants of liabilities. Financial costs are included in profit-loss statement as interest costs.
Leasing of fixed assets, within which all risks resulting from proprietorship are undertaken by the lessor, is classified as operational leasing. Leasing payments within operational leasing are accounted as costs during the whole leasing period and are related to the profit-loss statement during the whole leasing period by the use of a linear method.

Reserves

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

Materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers and other debtors

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

Money and its equivalents

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

Share capital

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

Profit per share

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

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

Credits and loans

Credits and loans are shown in their initial value. It is estimated by adding to or subtracting from the real value of the amount of loan costs related to the granting/receiving the loan.
Further loans will be shown in their amortized value.
Profit or losses, earned due to amortization, are shown in the profit-loss statement as interest incomes and expenses.

Accruals

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

Accruals and deferred liabilities

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

Income acknowledgement

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

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

Incomes from the rendering of services are acknowledged in accordance with the scale of the rendered services. Incomes from the rendering of services are acknowledged within the period when the services were rendered.
If the outcome related to the rendering of services can not be truthfully estimated, the incomes are acknowledged only of the amount of recovering acknowledged costs.

Sale of goods

Incomes are acknowledged when the holding company has assigned to its customer the most important risks and rewards related to the proprietorship to goods, i.e. when the holding company has delivered goods to its customer and the customer has accepted the goods in line with the provisions of agreement and when there isa 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	
	30.09.2007	30.09.2006	30.09.2007	30.09.2006	30.09.2007	30.09.2006	30.09.2007	30.09.2006
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Net turnover	6 864 233	5 068 981	2 562 542	407 784	173 551	186 901	9 600 326	5 663 666
Production costs of sold production	(6 034 985)	(4 708 891)	(2 321 148)	(378 816)	(84 405)	(173 624)	(8 440 538)	(5 261 331)
Selling costs	(101 898)	(583)	(39 191)	(47)	(1 425)	(21)	(142 514)	(651)
General and administration costs	(195 170)	(114 228)	(75 065)	(9 189)	(2 730)	(4 212)	(272 965)	(127 629)
Othe incomes/ (expenditures) from economic activity	(133 192)	(7 829)	(69 441)	(630)	(49 877)	(289)	(252 510)	(8 747)
Segment's profit	**398 988**	**237 450**	**57 697**	**19 102**	**35 114**	**8 755**	**491 799**	**265 307**
Incomes from participation in the company's capital							-	-
Financial costs, net	(59 448)	(32 347)	(9 755)	(2 602)	(79 496)	(1 193)	(148 699)	(36 142)
Company's income tax (undivided)	(31 762)	(55 869)	(4 492)	(4 494)	4 171	(2 060)	(32 083)	(62 423)
Other taxes	(1 209)	(3 595)	(97)	(290)	(45)	(132)	(1 351)	(4 017)
Net result	**306 569**	**145 639**	**43 353**	**11 716**	**(40 256)**	**5 370**	**309 666**	**162 725**
Segment's assets	3 348 918	2 742 052	2 654 307	1 797 391	1 918 280	2 240 949	7 921 505	6 780 392
Segment's liabilities	2 770 003	2 124 830	408 539	376 226	4 742 963	4 279 336	7 921 505	6 780 392

	logging		wood processing		Other		Total	
	30.09.2007	30.09.2006	30.09.2007	30.09.2006	30.09.2007	30.09.2006	30.09.2007	30.09.2006
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 766 924	7 212 509	3 646 169	580 224	246 941	265 936	13 660 033	8 058 670
Production costs of sold production	(8 587 010)	(6 700 148)	(3 302 696)	(539 007)	(120 097)	(247 045)	(12 009 804)	(7 486 200)
Selling costs	(144 988)	(830)	(55 764)	(67)	(2 028)	(30)	(202 779)	(926)
General and administration costs	(277 702)	(162 532)	(106 808)	(13 075)	(3 884)	(5 993)	(388 394)	(181 600)
Other incomes/ (expenditures) from econimic activity	(189 515)	(11 140)	(98 805)	(896)	(70 969)	(411)	(359 289)	(12 447)
Segment's profit	**567 709**	**337 860**	**82 096**	**27 180**	**49 963**	**12 457**	**699 767**	**377 497**
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(84 587)	(46 026)	(13 880)	(3 702)	(113 113)	(1 697)	(211 580)	(51 425)
Company's income tax (undivided)	(45 193)	(79 494)	(6 392)	(6 394)	5 935	(2 931)	(45 650)	(88 820)
Other taxes	(1 720)	(5 115)	(138)	(413)	(64)	(188)	(1 922)	(5 716)
Net result	**436 208**	**207 225**	**61 686**	**16 670**	**(57 279)**	**7 641**	**440 615**	**231 536**
Segment's assets	4 765 081	3 901 588	3 776 739	2 557 457	2 729 467	3 188 583	11 271 286	9 647 629
Segment's liabilities	3 941 359	3 023 361	581 299	535 321	6 748 628	6 088 947	11 271 286	9 647 629

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.

	30.09.2007 Ls	**2006.09.30** Ls	**30.09.2007** EUR	**2006.09.30** EUR
Incomes from sales including	9 368 685	5 546 250	13 330 438	7 891 603
Latvia	8 704 223	5 105 671	12 384 994	7 264 715
Russia	9 133		12 995	
European Union countries	655 329	440 579	932 449	626 887
Icomes from rendering of services, including	231 641	117 415	329 595	167 066
Latvia	220 763	117 415	314 117	167 066
Russia	10 878		15 478	
	9 600 326	**5 663 665**	**13 660 033**	**8 058 669**

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 September 30, 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.

Statement about the responsibility of management

Management of the company is responsible for developing financial statements, which are based on initial accounting for each accounting period and faithfully reflect financial status of the company at the end of an accounting period, as well as on the results of its activity and cash flow for the period.
Management verifies that when the report for the period, which ends on September 30, 2007, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.
Management is responsible for keeping relevant accounting records, for maintaining company's assets and for preventing deception and ignominy.

Board:

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