

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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 12 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:

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	31.12.2007 Ls	31.12.2006 Ls	31.12.2007 EUR	31.12.2006 EUR
Net turnover		12,465,954	8,554,113	17,737,455	12,171,406
Production costs of sold products		(11,249,948)	(7,857,711)	(16,007,234)	(11,180,515)
Gross profit		1,216,006	696,402	1,730,221	990,891
Selling costs		(216,877)	(51,814)	(308,588)	(73,725)
General and administration costs		(373,889)	(301,241)	(531,996)	(428,627)
Other income from economic activity		132,349	63,369	188,316	90,166
Other expenses from economic activity		(96,393)	(51,205)	(137,155)	(72,858)
Profit or loss from economic activity		661,196	355,511	940,797	505,847
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		2,948	6,192	4,195	8,810
Other interest payments and the like costs		(206,049)	(70,496)	(293,181)	(100,307)
Profit or loss before extraordinary items and taxes		458,095	291,207	651,810	414,350
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		458,095	291,207	651,810	414,350
Company's income tax		(59,553)	(12,524)	(84,736)	(17,820)
Deferred company's income tax		(14,413)	(32,417)	(20,508)	(46,125)
Other taxes		(9,865)	(10,533)	(14,037)	(14,987)
Profit or (loss),		374,264	235,733	532,530	335,418
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		0.97	0.61	1.38	0.87

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			
	31.12.2007	31.12.2006.	31.12.2007	31.12.2006.
Note	Ls	Ls	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	12,233	8,229	17,406	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	164,443	163,479	233,981	232,610
Fixed assets				
Land, buildings and constructions	2,315,321	1,067,250	3,294,405	1,518,560
Equipment and mashinery	2,554,638	2,264,470	3,634,922	3,222,051
Other fixed assets	43,755	33,854	62,258	48,170
Unfinished constructions	516,920	1,410,819	735,511	2,007,415
Advance payments for fixed assets	10,951	121,423	15,582	172,769
TOTAL	5,441,585	4,897,816	7,742,678	6,968,964
Long-term financial investments				
Partnership in the capital of related companies			-	-
Loans to related companies			-	-
TOTAL	-	-	-	-
TOTAL LONG-TERM INVESTMENTS	5,606,028	5,061,295	7,976,659	7,201,574
WORKING CAPITAL				
Reserves				
Raw materials, direct materials, auxiliary materials	181,896	10,842	258,815	15,427
Unfinished production	1,095,664	731,236	1,558,989	1,040,455
Made production and goods for selling	152,455	55,315	216,924	78,706
Advance payments for goods	12,306	77,934	17,510	110,890
TOTAL	1,442,321	875,327	2,052,238	1,245,478
Debtors				
Debts of buyers and customers	816,407	429,112	1,161,643	610,571
Other debtors	313,779	320,300	446,467	455,746
Expenses of the following periods	48,896	6,614	69,573	9,411
TOTAL	1,179,082	756,026	1,677,683	1,075,728
Money and its equivalents	20,924	87,744	29,772	124,848
TOTAL WORKING CAPITAL	2,642,327	1,719,097	3,759,693	2,446,055
TOTAL ASSETS	8,248,355	6,780,392	11,736,352	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 balance-sheet (continuation)

	Note	Passive			
		31.12.2007	31.12.2006.	31.12.2007	31.12.2006.
		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		(180)	(2)	(256)	(3)
Other reserves		2,213,959	2,056,620	3,150,180	2,926,307
Retained earnings from the previous year		(32,618)	(7,235)	(46,411)	(10,294)
Retained earnings of the year of account		374,264	235,733	532,530	335,418
TOTAL		2,944,548	2,674,239	4,189,714	3,805,099
TOTAL OWN CAPITAL		2,944,548	2,674,239	4,189,714	3,805,099
CREDITORS					
Long-term creditors					
Company's deferred income tax		253,109	236,819	360,142	336,963
Long-term loans from credit institutions		2,091,677	1,886,023	2,976,188	2,683,569
Financial lease liabilities long-term part		754,955	376,171	1,074,204	535,243
Deferred incomes long-term part		98,370	114,611	139,968	163,077
TOTAL		3,198,111	2,613,624	4,550,502	3,718,852
Short-term creditors					
Short-term loans from credit institutions		936,489	624,579	1,332,504	888,696
Financial lease liabilities short-term part		280,969	227,826	399,783	324,167
Advanced payments received from customers		4,200	108,458	5,976	154,322
Debts to suppliers and contractors		565,988	380,041	805,328	540,750
Accrued liabilities		61,140	47,612	86,994	67,746
Debts to related companies				-	-
Taxes payable		102,753	21,524	146,204	30,626
Other creditors		137,916	66,248	196,237	94,262
Incomes from following periods short-term part		16241	16241	23,109	23,109
Unpaid dividends from previous years				-	-
TOTAL		2,105,696	1,492,529	2,996,135	2,123,677
TOTAL CREDITORS		5,303,807	4,106,153	7,546,637	5,842,529
TOTAL LIABILITIES		8,248,355	6,780,392	11,736,352	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		31.12.2007	31.12.2006	31.12.2007	31.12.2006
		Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes		458,094	291,207	651,809	414,350
a)	wear and tear of fixed assets and intangible investments (+)	679,502	371,641	966,844	528,798
b)	elimination of fixed assets and intangible investments	305,170	37,738	434,218	53,696
c)	formation of accruals (except the accruals for insecure debts)	(13,528)	(1,129)	(19,249)	(1,606)
d)	profit (-) or loss (+) from fluctuations of the exchange rate of	67	20	95	28
e)	incomes from the acknowledgement of financing	(16,241)	(26,096)	(23,109)	(37,131)
f)	other interest incomes and the like incomes	(2,854)	(6,192)	(4,061)	(8,810)
g)		7,203		10,249	-
h)	interest payments and the like costs	200,008	70,496	284,586	100,307
2. Profit or loss before the corrections of impact of changes of		1,617,421	737,685	2,301,383	1,049,631
a)	increase of the remainder of debtors' debts (-) or decrease (+)	(423,056)	155,972	(601,954)	221,928
b)	increase of the remainder of reserves (-) or decrease (+)	(566,994)	(462,105)	(806,760)	(657,516)
c)	increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)	264,589	(270,333)	376,476	(384,649)
3 Gross cash flow from basic activity		891,960	161,219	1,269,145	229,394
4. Expenditures to interest payers		(200,008)	(70,496)	(284,586)	(100,307)
5. Expenditures for paying company's income tax and immovable property tax		(83,830)	(186,636)	(119,279)	(265,559)
6. Cash flow before extraordinary items		608,122	(95,913)	865,280	(136,472)
7. Cash flow from extraordinary items					
Net cash flow from basic activity		608,122	(95,913)	865,280	(136,472)
II. Cash flow from investment activities					
3. Purchase of fixed assets and intangible assets		(2,537,606)	(799,767)	(3,610,688)	(1,137,966)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		1,008,413	(1,432,233)	1,434,842	(2,037,884)
6. Received interest		2,854	6,192	4,061	8,810
6. Net cash flow from investing activities		(1,526,339)	(2,225,808)	(2,171,785)	(3,167,039)
III. Cash flow from financing activities					
1. Received loans		1,944,067	2,359,819	2,766,158	3,357,720
2. Received financing from the EU			9,850	-	14,015
3. Received investment in capital				-	-
4. Expenditures to pay back loans		(605,571)	(103,591)	(861,650)	(147,397)
5. Expenditures for redemption of a hired fixed asset		(389,892)	(659,940)	(554,766)	(939,010)
6. Disbursed dividends		(96,784)	(163,142)	(137,711)	(232,130)
6. Net cash flow from financing activity		851,820	1,442,996	1,212,031	2,053,198
IV. Result of fluctuations of the exchange rate of foreign currency		(423)	(22)	(602)	(31)
V. Net cash flow of the year of account increase (+), decrease (-)		(66,820)	(878,747)	(95,076)	(1,250,344)
VI. Remainder of money or its equivalents at the beginning of the year of		87,744	966,491	124,848	1,375,193
VII. Remainder of money or its equivalents at the end of the year of		20,924	87,744	29,772	124,848

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

joint-stock company Saldus mežrūpniecība							
	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							-
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	-	1,987	2,056,620	(7,235)	235,733	2,674,241
Currency fluctuations due to recalculation		(180)					(180)
Reserves of recalculation	-		-	-			-
Distribution of the profit of year 2006	-		-	157,339	(25,383)	(235,733)	(103,777)
Estimated dividends	-		-				-
Profit of the year of account	-		-	-		374,264	374,264
30.09.2007	387,136	(180)	1,987	2,213,959	(32,618)	374,264	2,944,548

	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
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2005.	550,845	-	2,827	1,602,882	(6,289)	1,550,774	3,701,039
Currency fluctuations due to recalcul	-	-	-	-	-	-	-
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, correcte	-	-	-	-	-	335,418	335,418
31.12.2006.	550,845	-	2,827	2,926,307	(10,294)	335,418	3,805,102
Currency fluctuations due to recalcul	-	(256)	-	-	-	-	(256)
Reserves of recalculation	-	-	-	-	-	-	-
Distribution of the profit of year 2006	-	-	-	223,873	(36,117)	(335,418)	(147,661)
Estimated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	532,530	532,530
30.09.2007	550,845	(256)	2,827	3,150,180	(46,411)	532,530	4,189,714

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- December 31, 2007

2. Name of the company	Saldus Les
Legal status of the company	Limited liability company (OOO)
Registration number, date, place	1066027046337 October 9, 2006 Russia, Pskov Region
Address	Konnaja 2-214, Pskov, Russia 180007
Main types of business	Logging
Owners of the company	Joint-stock company Saldus mežrūpniecība - 99% Kolosovs Sergejs - 1%
Year of account	January 1- December 31, 2007

3. Name of the company	Saldus
Legal status of the company	Limited liability company (OOO)
Registration number, date, place	1056000426371 December 21, 2005 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- December 31, 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.

	31.12..2007.	31.12..2006.
USD/ LVL	0,484	0,536
RUB/ LVL	0.0197	0.0203
EUR/ LVL	0,702804	0.702804

Intangible investments

Intangible investments are 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	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Net turnover	9 375 432	5 150 410	3 084 582	3 355 199	5 940	48 502	12 465 954	8 554 111
Production costs of sold production	(8 330 786)	(4 741 151)	(2 904 606)	(3 074 700)	(14 555)	(41 860)	(11 249 947)	(7 857 711)
Selling costs	(216 877)	(50 777)		(1 037)			(216 877)	(51 814)
General and administration costs	(53 935)	(185 863)	(5 409)	(99 010)	(314 545)	(16 367)	(373 889)	(301 240)
Other incomes/ (expenditures)	105 764	7 907	(10 860)	5 314	(58 949)	(1 058)	35 955	12 164
from economic activity								
Segment's profit	879 598	180 526	163 707	185 766	(382 109)	(10 783)	661 196	355 509
Financial costs, net	(56 518)	(36 739)	(19 790)	(13 258)	(126 793)	(14 307)	(203 101)	(64 304)
Company's income tax (undivided)					(73 966)	(44 937)	(73 966)	(44 937)
Other taxes	(5 426)	(3 345)	(4 439)	(7 138)		(50)	(9 865)	(10 533)
Net result	817 654	140 442	139 478	165 370	(582 868)	(70 077)	374 264	235 735
Segment's assets	3 267 873	2 742 052	3 421 707	1 797 391	1 558 775	2 240 949	8 248 355	6 780 392
Segment's liabilities	3 766 950	936 644	1 489 216	493 610	2 992 189	5 350 138	8 248 355	6 780 392

	logging		wood processing		Other		Total	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	13 340 038	7 328 373	4 388 965	4 774 018	8 452	69 012	17 737 455	12 171 403
Production costs of sold production	(11 853 641)	(6 746 050)	(4 132 882)	(4 374 904)	(20 710)	(59 561)	(16 007 232)	(11 180 515)
Selling costs	(308 588)	(72 249)	-	(1 476)	-	-	(308 588)	(73 725)
General and administration costs	(76 743)	(264 459)	(7 696)	(140 879)	(447 557)	(23 288)	(531 996)	(428 626)
Other incomes/ (expenditures) from economic activity	150 489	11 251	(15 452)	7 561	(83 877)	(1 505)	51 159	17 306
Segment's profit	1 251 555	256 865	232 934	264 321	(543 692)	(15 343)	940 797	505 844
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(80 418)	(52 275)	(28 159)	(18 864)	(180 410)	(20 357)	(288 987)	(91 496)
Company's income tax (undivided)	-	-	-	-	(105 244)	(63 940)	(105 244)	(63 940)
Other taxes	(7 721)	(4 760)	(6 316)	(10 156)	-	(71)	(14 037)	(14 987)
Net result	1 163 417	199 831	198 459	235 300	(829 346)	(99 711)	532 530	335 421
Segment's assets	4 649 764	3 901 588	4 868 650	2 557 457	2 217 937	3 188 583	11 736 352	9 647 629
Segment's liabilities	5 359 887	1 332 724	2 118 963	702 344	4 257 501	7 612 561	11 736 352	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.

	31.12.2007 Ls	31.12.2006 Ls	31.12.2007 EUR	31.12.2006 EUR
Incomes from sales including	12,060,954	8,029,596	17,161,191	11,425,086
Latvia	11,095,896	7,191,461	15,788,038	10,232,527
Russia	182,869	46,692	260,199	
European Union countries	782,189	838,135	1,112,955	1,192,559
Incomes from rendering of services, including	405,000	524,517	576,263	746,320
Latvia	385,868	524,517	549,041	746,320
Russia	19,132		27,222	
	12,465,954	8,554,113	17,737,455	12,171,406

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, 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 December 31, 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
Chairman of the board

Ivars Feikners
Vice-chairman of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board

**Joint-stock company „Saldus mežrūpniecība”
Consolidated Management Report
added to the report of activities for the year 2007**

Description of commercial activity within the accounting period

In 2007, the consolidated profit of the holding company “Saldus mežrūpniecība” from its economic activity was 374 264 LVL after taxes while the net turnover was 12 465 954 LVL which brings 0,97 LVL profit per each issued stock.

The consolidated profit is smaller than the profit from the business activity of the joint-stock company “Saldus mežrūpniecība”, which was 408 719 LVL, because companies which work with 100% capital of the joint-stock company “Saldus mežrūpniecība”- OOO «Салдус» earned 1047 LVL, “Pakuļi Sports Centre” Ltd. lost 29 450 LVL and OOO «Салдус лес» lost 6 052 LVL.

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

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

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

These shortened financial statements are prepared on the ground of information and existing laws and regulations, where are board of JSC Saldus mežrūpniecība action, and it provides true and clear view of assets, liabilities, financial position and profit or loss of holding company. Information, who is include in report, is true.

Important events after the end of the accounting year

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

Forecast for the financial showings and business activity for 2008

At the beginning of 2008, the sawn timber market has not improved. Today it is hard to forecast how long the situation will last as it is directly related to the recovery of global economics because the main part of our production is being exported. The recession is seen in almost all sectors of the round timber market. Sales prices are on decrease; thus after three month period the prices of resources are also on decrease which does not help to develop business activity. The above mentioned does not give positive signals for business development in 2008. Today the planned sales volume of sawn timber is 21600 m³ and the planned volume of logging is 261000 m³.

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

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

Business and financial risks management policy

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

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

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

February 28, 2008

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

