

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2008

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2009

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Information about the Company

Name of the Company
Legal status of the Company
Registration number, place, and date

Saldus Timber Wood Industry (Saldus mežrūpniecība)
Joint Stock Company
40003020124 August 26, 1991, Riga

Address: Mežvidi, Novadnieki Parish., LV-3801,

Saldus District., Republic of Latvia

Single registration number: 40003020121

Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Ivars Feikners (<i>Ivars Feikners</i>) – member of the Board Gundars Maurs (<i>Gundars Maurs</i>) – member of the Board Janis Merkals (<i>Jānis Mierkalns</i>) – member of the Board
Members of the Council: name, surname, position	Uldis Melkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Lauris Leja (<i>Lauris Leja</i>) – member of the Council Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council Gunvaldis Vesmins (<i>Gunvaldis Vēsminš</i>) – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2008
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2008
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2008
Name and address of the Auditor	Ginta Jaunzeme (<i>Ginta Jaunzeme</i>) Sworn Auditor (Certificate of Latvian Sworn Auditor No.16) License of Commercial Company No.39

(Translated from Latvian)

Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC Communication of the Board on Report on activities in 2008

Description of business activities during reporting period

Address: Mežvidi, Novadnieki Parish., LV-3801,

Saldus District., Republic of Latvia

Single registration number: 40003020121

During reporting period there took place very big and different perceptual oscillations of both lumber and timber and board lumber market prices. Forest working volume is behind of planned indexes: sale of round timber was of 201 973 m³ only instead of 262 022 m³, round timber preparation was of 210 934 m³ instead of 274 624 m³. Forest working was artificially broken and it is directly related to dramatic drop of timber offer in private sector and unreasonably high price of resources on long-term contract of Latvian State forests, JSC (A/S „Latvijas valsts meži”).

Volumes of wood processing are in accordance with planned indexes (there was produced 16154 m³ board lumber and 1358 m³ of firewood for fireplaces), but there was not fulfilled plans of board lumber sales (sold 14 only 862 m³ of board lumber instead of planned 19697 m³, and firewood sale – 1692 m³). During whole time of reporting period demand for structural board lumber was very low and prices continue to drop. In May of the reporting period there was adopted decision on suspension of „Paegles” Lumber Mill operation due to absence of prospected profit in current economical conditions.

In 2008 loss of Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC from business activities after taxation is of LVL 219076 at net turnover of LVL 9757967, which makes loss per one share of LVL 0.57.

Financial report of the Company was prepared on the basis of information being in disposition of the Board of the Company and requirements of valid legislative instruments, and provides authentic and clear presentation of Assets and Liabilities, Financial Position, and Profit and Loss of the Company.

The communication includes adequate information

Significant events after the end of the reporting year

From the moment between the report completion and day of the report signing, excluding the above mentioned, there were no significant events, which may effect financial position of the Company reflected in the financial report.

Prognosis on financial indexes and commercial plans of 2009

At the beginning of 2009 there were no improvements on board lumber market. At the moment there is not foreseen for how long time it may be, because it is directly related to economic recovery in Latvia and in the world, due to export of the main part of products. But positive sign is what at the moment price of timber offered by Latvian State Forests, JSC drop, which leads to profitability of board lumber production as well.

Sales price stagnation take place for the main part of round timber range as well. Therewith take place problems with sale of wood for paper production and firewood due to very low demand – at the moment products of this range are offered on the market. To continue forest working Latvian State Forests, JSC is ready to decrease prices of timber till level allowing profitable woodworking production, export, and forest working companies operation. Still offer of private timber is very low due to low sales price of round timber.

At such market situation the Company is not in position to operate in a balanced manner, using own resources (technical equipment, workers, management) with maximum efficiency and as a result the Company suffers loss. Management is working on internal reorganisation of the Company for adaptation to the current economic position and financial indexes of the Company.

There is not planned to change volume of forest working and sales, it shall stay at previous level – 270 000 m³. There is planned double increase of volume of board lumber production and sales – up to 43 600 m³ per year.

Policy of business and financial risk control

In 2009 Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC will continue to divide business operation risk between forest working and board lumber production.

There is necessary to continue activities on outdated fixed assets realisation on lumber mill and real estate (mechanical workshop in Mežvidi area), old lumber mills in Saldus area, and realisation of Paegles lumber mill production equipment in aim to decrease of short-term credits usage, becoming independent from short-term credits. For sure, it is required to decrease board lumber products stock and more aggressive work with debtors for improving cash flow this way.

Profit allocation

In 2008 Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC operated with loss.

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Janis Mierkalns
Member of board

Consolidated profit or loss calculation

	Note	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Net turnover	4	9 757 967	12 465 576	13 884 336	17 736 917
Production costs of the sold production	5	(9 257 565)	(11 221 354)	(13 172 328)	(15 966 548)
Gross profit		500 402	1 244 222	712 008	1 770 368
Selling costs	6	(204 597)	(216 877)	(291 115)	(308 588)
General administration costs	7	(334 960)	(384 108)	(476 605)	(546 536)
Other income from company's economic activity	8	431 234	93 258	613 591	132 694
Other expenditures from company's economic activity	9	(385 289)	(105 634)	(548 217)	(150 304)
Profit or loss from economic activity		6 790	630 861	9 661	897 634
Net profit from participation in the capital of subsidiary and associated companies					-
Other interest income and the like income	11	23	15 552	33	22 129
Other interest payments and the like payments	11	(273 032)	(191 390)	(388 490)	(272 323)
Profit or loss before extraordinary items and taxes		(266 219)	455 023	(378 796)	647 439
Extraordinary income					
Extraordinary expenditures					
Profit or loss before taxes		(266 219)	455 023	(378 796)	647 439
Company's income tax	12	(2 277)	(65 185)	(3 240)	(92 750)
Company's deferred income tax	12	60 248	(5 818)	85 725	(8 278)
Other taxes		(10 828)	(9 865)	(15 407)	(14 037)
Profit or (loss)		-219 076	374 155	-311 717	532 375
Profit/ (loss) per share					
LVL per share / EUR per share		(0.57)	0.97	(0.81)	1.38

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

Board :

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Janis Mierkalns
Member of board

Consolidated balance sheet**ASSETS**

	Note	31.12.2008 LVL	31.12.2007 LVL	31.12.2008 EUR	31.12.2007 EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like		34 852	12 233	49 590	17 406
Company's intangible value		132 000	132 000	187 819	187 819
Advance payments for intangible investments		-	20 210	-	28 756
TOTAL	13	166 852	164 443	237 409	233 981
Fixed assets					
Land, premises and buildings		3 611 470	2 315 321	5 138 659	3 294 405
Equipment and machinery		1 821 994	2 528 287	2 592 464	3 597 428
Other fixed assets		31 986	43 755	45 512	62 258
Unfinished constructions		523 520	508 986	744 902	724 222
Advance payments for fixed assets		-	10 951	-	15 582
TOTAL	14	5 988 970	5 407 300	8 521 537	7 693 895
Long-term financial investments					
Participation in the capital of related companies		-	-	-	-
Loans to the related companies		-	-	-	-
TOTAL		-	-	-	-
TOTAL LONG-TERM INVESTMENTS		6 155 822	5 571 743	8 758 946	7 927 876
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		602 957	174 495	857 931	248 284
Unfinished production		971 483	1 124 298	1 382 296	1 599 732
Finished production and goods for sale		583 791	151 229	830 660	215 179
Advance payments for goods		912 478	86 150	1 298 339	122 580
TOTAL	15	3 070 709	1 536 172	4 369 225	2 185 776
Debtors					
Debts of buyers and customers	16	782 859	818 186	1 113 908	1 164 174
Accrued income		31 394	42 887	44 670	
Other debtors	17	179 337	234 704	255 174	333 954
Expenditures of the next periods	18	118 322	18 691	168 357	26 595
TOTAL		1 111 912	1 114 468	1 582 108	1 524 722
Money and its equivalents	19	480 774	20 924	684 080	29 772
TOTAL CURRENT ASSETS		4 663 395	2 671 564	6 635 413	3 740 270
TOTAL ASSETS		10 819 217	8 243 307	15 394 359	11 668 146

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Board:

Jānis Bertrāns
Chairman of boardIvars Feikners
Vice-chairmanGundars Maurs
Member of boardJanis Mierkalns
Member of board

Consolidate balance sheet (continuation)

Shareholders'equity and liabilities	Note	31.12.2008. LVL	31.12.2007. LVL	31.12.2008. EUR	31.12.2007. EUR
Shareholders'equity					
Share capital	20	387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from reestimation of foreign currency		(120 061)	(64)	(170 831)	(91)
Other reserves		3 423 327	2 213 959	4 870 955	3 150 180
Undivided consolidated profit from the previous year		(66 905)	(32 619)	(95 197)	(46 413)
Undivided profit (loss) of the year of account		(219 076)	374 155	(311 717)	532 375
TOTAL		3 406 408	2 944 554	4 846 882	4 189 723
Total shareholders'equity		3 406 408	2 944 554	4 846 882	4 189 723
Liabilities					
Long-term liabilities					
Deferred company's income tax		186 543	244 514	265 427	347 912
Long-term loans from credit institutions	21	2 115 960	2 078 559	3 010 740	2 957 523
Long-term part of financial lease liabilities	22	443 495	709 019	631 037	1 008 843
Other creditors		1 388 038		1 975 000	
Long-term part of incomes from next periods	26	82 129	98 370	116 859	139 968
TOTAL		4 216 165	3 130 462	5 999 062	4 454 246
Short-term liabilities					
Short-term loans from credit institutions	21	2 085 763	950 191	2 967 773	1 352 000
Short-term part of financial lease	22	236 319	326 978	336 252	465 248
Advance payments received from buyers		225 659	8 128	321 084	11 565
Debts to suppliers and contractors		478 444	555 693	680 764	790 680
Accured liabilities	25	48 077	61 140	68 407	86 994
Taxes payable	23	48 354	108 038	68 802	153 724
Other creditors	24	57 787	141 882	82 223	201 880
Incomes from the next periods short-term part	26	16241	16241	23 109	23 109
Unpaid dividends from the previous years				-	-
TOTAL		3 196 644	2 168 291	4 548 415	3 085 200
Total liabilities		7 412 809	5 298 753	10 547 477	7 539 446
Total shareholders'equity and liabilities		10 819 217	8 243 307	15 394 359	11 729 169

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

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Janis Mierkalns
Member of board

Consolidated cash flow statement

I. Cash flow from basic activity	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes:	(266 218)	455 023	(378 794)	647 439
a) wear and tear of fixed assets and intangible investments (+)	653 303	721 457	929 566	1 026 541
b) elimination of fixed assets and intangible investments	155 201	162 339	220 831	230 988
c) formation of accruals (except for the accruals for insecure debts)	13 118	(13 528)	18 665	(19 249)
d) profit (-) or loss (+) from fluctuations of exchange rate	(9 154)	29 643	(13 025)	42 178
e) income from the acknowledgement of financing	(16 241)	(16 241)	(23 109)	(23 109)
f) other interest income and the like income	(20)	(15 536)	(28)	(22 106)
h) interest payments and the like expenditures	236 462	200 592	336 455	285 417
2. Profit or loss before the corrections of the impact of balance	766 452	1 523 749	1 090 562	2 168 099
a) debitoru parādu atlikumu pieaugums (-) vai samazinājums (+)	27 367	(447 875)	38 940	(637 269)
b) increase (+) or decrease (-) of the reserves of accruals	(1 529 630)	(660 847)	(2 176 467)	(940 301)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	178 681	215 216	254 240	306 225
3. Gross cash flow from basic activity	(557 130)	630 243	(792 726)	896 755
4. Expenditures to pay interest payments	(236 462)	(200 592)	(336 455)	(285 417)
5. Expenditures to pay company's income tax and immovable property tax	47 143	(44 972)	67 078	(63 989)
6. Cash flow before extraordinary items	(746 449)	384 679	(1 062 103)	547 349
7. Cash flow from extraordinary items				
8. Net cash flow from basic activity	(746 449)	384 679	(1 062 103)	547 349
II. Cash flow from investments				
3. Acquisition of fixed assets and intangible investments	(630 738)	(457 074)	(897 459)	(650 358)
4. Expenditures for advance payments for fixed assets and unfinished constructions	(39 253)	(358 172)	(55 852)	(509 633)
5. Income from selling fixed assets and intangible investments	5 132	359 611	7 302	511 680
6. Interest received	20	2 854	28	4 061
6. Net cash flow from investments	(664 839)	(452 781)	(945 981)	(644 249)
III. Cash flow from financing activities				
1. Loans received	3 428 158	1 123 136	4 877 829	1 598 079
2. EU financing received			-	-
3. Received investments in capital			-	-
4. Expenditures for paying back loans	(946 087)	(604 988)	(1 346 161)	(860 820)
5. Expenditures for redemption of asset that was hired	(668 194)	(390 082)	(950 754)	(555 037)
6. Paid out dividends	-	(96 784)	-	(137 711)
6. Net cash flow from financing activities	1 813 877	31 282	2 580 914	44 510
IV. The result of the exchange rate fluctuations	57 261	(30 000)	81 475	(42 686)
V. Net cash flow of the year of account increase (+), decrease (-)	459 850	(66 820)	654 306	(95 076)
VI. Money and its equivalents balance at the beginning of the year of	20 924	966 491	29 772	1 375 193
VII. Money and its equivalents balance at the end of the year of account	480 774	87 744	684 080	124 848

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

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Janis Mierkalns
Member of board

Statement on the changes in own capital

	Share capital	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Undivided profit/loss of the previous year	Undivided profit/loss of the year of account	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2006	387 136	(2)	1 987	2 056 620	(7 235)	235 733	2 674 239
		(62)					(62)
Distribution of profit of the year 2007	-		-	157 339	(25 384)	(235 733)	(103 778)
Paid out dividends	-		-				-
Profit of the year of account,adjusted	-		-			374 155	374 155
December 31, 2007	387 136	(64)	1 987	2 213 959	(32 619)	374 155	2 944 554
Currency fluctuations due to the reestimation of for.		(119 997)			685		(119 312)
Reestimation reserves	-		-	800 242		-	800 242
Distribution of the year 2008 profit	-		-	409 126	(34 971)	(374 155)	-
Calculated dividends	-		-				-
Profit of the year of account	-		-	-		(219 076)	(219 076)
December 31, 2008	387 136	(120 061)	1 987	3 423 327	(66 905)	(219 076)	3 406 408

	Share capital	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Undivided profit/loss of the previous year	Undivided profit/loss of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2006	550 845	(3)	2 827	2 926 307	(10 294)	335 418	3 805 099
		(88)					(88)
Distribution of profit of the year 2007	-	-	-	223 873	(36 118)	(335 418)	(147 663)
Paid out dividends	-	-	-	-	-	-	-
Profit of the year of account,adjusted	-	-	-	-	-	532 375	532 375
December 31, 2007	550 845	(91)	2 827	3 150 180	(46 413)	532 375	4 189 723
Currency fluctuations due to the reest	-	(170 740)	-	-	975	-	(169 766)
Reestimation reserves	-	-	-	1 138 642	-	-	1 138 642
Distribution of the year 2008 profit	-	-	-	582 134	(49 759)	(532 375)	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(311 717)	(311 717)
December 31, 2008	550 845	(170 831)	2 827	4 870 955	(95 197)	(311 717)	4 846 882

Board:

Jānis Bertrāns
Chairman of board

Ivars Feikners
Vice-chairman

Gundars Maurs
Member of board

Janis Mierkalns
Member of 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 the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2008 consolidated report, hereinafter Holding company.

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

1. Name of the company	Pakuļu sporta bāze / Pakuļi Sports Centre
Legal status of the company	Limited liability company
Registration number, registration date in commercial register	48503009010 November 21, 2002
Address	Mežvidi, Novadnieku pag. Saldus rajons LV 3801
Main types of business	Hunting and related services. Shooting practice and organization of shooting competitions with hunting weapons
Owner of the company	Joint-stock company Saldus mežrūpniecība, 100%
Year of account	January 1- December 31, 2008
2. Name of the company	Derevoobravativajutishij kombinat Nr.3 (DOK Nr.3)
Legal status of the company	Limited liability company (OOO)
Registration number, date, place	1066027046337 October 9, 2006 Russia, Pskov Region
Address	Zonalnoje sosse 44a, Pskov, Russia 180007
Main types of business	Logging
Owners of the company	Joint-stock company Saldus mežrūpniecība - 99% DOK Nr.3 - 1%
Year of account	January 1- December 31, 2008
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, 2008

2. Important accounting principles

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

Principles of preparing the financial statement

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

Currency and items used in the preparation of the financial statement

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

Consolidation

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

Consolidation of foreign subsidiary companies

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

Changes in the accounting principles

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

Application of the International Financial Reporting Standards

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

Use of calculations (continuation)

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

Transactions in foreign currencies

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

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

	31.12.2007.	31.12.2006.
USD/ LVL	0,495	0,536
RUB/ LVL	0.0171	0.0203
EUR/ LVL	0,702804	0.702804

Intangible investments

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

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

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

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

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

Capital assets

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

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

Buildings, constructions	- 20 years (since 01.01.2008.)
Equipment and machinery	- 10 years
Forest equipment	- 5 years (since 01.01.2007.)
Timber processing lines	- 5 years (since 01.01.2007.)
Other capital assets	- 5 years
Computing and data gathering devices, software	- 5 years

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

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

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

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

Decrease of the value of assets

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

Loan costs

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

Lease

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

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

Reserves

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

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

Share capital

Common shares are classified as own capital. All shares are registered shares and in non-material form.

Profit per share

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

Credits and loans

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

Further loans will be shown in their depreciation value.

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

Accruals

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

Accruals and deferred liabilities

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

Income recognition

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

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

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

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

Sale of goods

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

Interest

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

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

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

Taxes

Company income tax

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

Deferred company income tax

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

Possible liabilities and assets

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

Allowances

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

Associated persons

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

Events after the end of the year of account

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

3. Segments of the Holding activities

	logging		timber processing		Other and undistributable		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	7 081 521	9 375 363	2 356 369	3 084 273	320 077	5 940	9 757 967	12 465 576
Production costs of sold products	(6 585 062)	(8 301 977)	(2 369 156)	(2 904 822)	(303 347)	(14 555)	(9 257 565)	(11 221 354)
Selling costs	(119 567)	(216 877)	(48 157)		(36 873)		(204 597)	(216 877)
General administration costs	(159 097)	(63 928)	(68 463)	(5 409)	(107 400)	(314 770)	(334 960)	(384 107)
Other incomes/expenditures from economic activity	111 511	57 432	(76 063)	(10 860)	10 497	(58 948)	45 945	(12 376)
Segment profit	329 306	850 013	(205 470)	163 182	(117 046)	(382 333)	6 790	630 862
Financial expenditures, net	(166 680)	(57 102)	(89 182)	(19 790)	(17 147)	(98 947)	(273 009)	(175 839)
Company income tax (undistributable)					57 971	(71 003)	57 971	(71 003)
Other taxes	(7 239)	(5 426)	(2 902)	(4 439)	(687)		(10 828)	(9 865)
Net result	155 387	787 485	(297 554)	138 953	(76 909)	(552 283)	(219 076)	374 155
Segment assets	5 778 119	3 269 884	2 413 132	3 421 707	2 627 966	1 551 716	10 819 217	8 243 307
Segment liabilities	4 726 933	3 768 961	1 887 539	1 489 216	4 204 745	2 985 130	10 819 217	8 243 307

	logging		timber processing		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	10 076 097	13 339 940	3 352 811	4 388 525	455 429	8 452	13 884 336	17 736 917
Production costs of sold products	(9 369 699)	(11 812 649)	(3 371 005)	(4 133 189)	(431 624)	(20 710)	(13 172 328)	(15 966 548)
Selling costs	(170 129)	(308 588)	(68 521)	-	(52 466)	-	(291 115)	(308 588)
General administration costs	(226 375)	(90 961)	(97 414)	(7 696)	(152 816)	(447 877)	(476 605)	(546 535)
Other incomes/expenditures from economic activity	158 666	81 718	(108 228)	(15 452)	14 936	(83 875)	65 374	(17 609)
Segment profit	468 560	1 209 460	(292 357)	232 187	(166 541)	(544 011)	9 661	897 636
Financial expenditures, net	(237 164)	(81 249)	(126 895)	(28 159)	(24 398)	(140 789)	(388 457)	(250 196)
Company income tax	-	-	-	-	82 485	(101 028)	82 485	(101 028)
Other taxes	(10 300)	(7 721)	(4 129)	(6 316)	(978)	-	(15 407)	(14 037)
Net result	221 096	1 120 490	(423 381)	197 712	(109 432)	(785 828)	(311 717)	532 375
Segment assets	8 221 523	4 652 626	3 433 577	4 868 650	3 739 259	2 207 893	15 394 359	11 729 169
Segment liabilities	6 725 820	5 362 748	2 685 726	2 118 963	5 982 813	4 247 457	15 394 359	11 729 169

3. Segments of the Holding activities (continuation)

The Holding shows information through particular segments.

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

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

Segment descriptions:

Logging

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

Timber processing

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

Other

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

4. Net turnover through geographical segments

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

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Income from sales, int. Al.	9 510 412	12 060 576	13 532 097	16 900 454
Latvia	8 994 468	11 095 518	12 797 975	15 787 500
Russia	365 417	182 869	519 942	
the EU countries	150 527	782 189	214 181	1 112 955
Income from rendering of services, int. Al.	247 555	405 000	352 239	549 041
Latvia	224 154	385 868	318 942	549 041
Russia	23 401	19 132	33 297	
	9 757 967	12 465 576	13 884 336	17 449 495

5. Production costs of sold products

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Actual cost of sold products				
Wages	963 826	1 242 324	1 371 401	1 767 668
Wear and tear of capital assets	611 409	693 085	869 957	986 171
Purchasing costs of raw materials	2 469 265	2 470 073	3 513 448	3 514 598
Stem taxes	3 378 681	5 031 955	4 807 430	7 159 827
Electricity costs	83 800	72 415	119 237	103 037
Security, heating	24 445	18 652	34 782	26 539
Services received from outside	1 662 726	1 628 270	2 365 846	2 316 820
Other costs	63 413	64 579	90 229	91 888
	9 257 565	11 221 354	13 172 328	15 966 548

6. Selling costs

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Other expenditures	2957	150	213	1 476
Railway, customs clearance formalities	201 640	216 727	308 375	72 249
	204 597	51 814	308 588	73 725

7. General and administration costs

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Administration costs				
Wages	185 880	173 982	264 483	247 554
Wear and tear of capitl assets	29 060	25 369	41 349	36 097
Communication costs	10 525	6 657	14 976	9 472
Office upkeep costs	33 144	57 952	47 160	82 458
Annual report costs	6 635	5 726	9 441	8 147
Banking services	5 665	3 104	8 061	4 417
Insurance costs	12 657	13 076	18 009	18 605
Legal services	9 475	4 719	13 482	6 715
Other	4 036	53 935	5 743	
Travelling allowance	4 465	5 867	6 353	8 348
Maintenance of the capital assets of administration	33 419	33 721	47 551	47 981
	334 960	384 108	476 607	469 794

8. Other income from economic activity

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Other income				
Income from excluding of long-term investments	184 201	68 335	262 094	97 232
Income from the fluctuations of exchange rate	220 548	848	313 812	1 207
Other income	10 244	7 834	14 576	11 147
Income of the next periods	16 241	16 241	23 109	23 109
	431 234	93 258	613 591	132 694

9. Other costs of economic activity

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Other expenditure				
Loss from excluding long-term investments				0
Expenditure due to exchange rate fluctuations	314 064	29 622	446 873	
Donations	4 519	11 370	6 430	16 178
Accruals for insecure debtors	30 205	0		0
Other expenditure	16 352	24 604	23 267	35 008
Payments into private pension funds	8 862	24 843	12 609	35 348
Penalties	11 287	15 195	16 060	21 621
	385 289	105 634	505 239	108 155

10. Staff costs

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Average number of employees	159	173		
Staff costs in total				
Wages pursuant to differen legislation	41 158	44 923	35 835	63 920
Wages	926 189	1 126 407	1 317 848	1 602 733
Social security tax	225 409	244 976	320 728	348 569
	1 192 915	1 416 479	1 674 411	2 015 222
Int. Al.				
<u>Wages of production workers</u>				
Wages pursuant to differen legislation	25 185	44 923	35 835	63 920
Wages	789 441	984 301	1 123 273	1 400 534
Social security tax	192 250	213 100	273 547	303 214
	1 006 876	1 242 324	1 432 655	1 767 668
<u>Administration wages</u>				
Wages pursuant to different legislation	15 973			0
Wages	136 748	142 106	194 575	202 199
Social security tax	33 159	31 876	47 181	45 355
	185 880	173 982	241 756	247 554
Int. Al. For management				
Wages	63 433	49 385	90 257	70 269
Social security tax	15 282	11 333	21 744	16 125
	78 715	60 718	112 001	86 394

11. Financial income/ (expenditure), net

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
% for granted loans		12682	0	
Received % from the balance of account	23	2 870	33	4 084
	23	15 552	33	4 084
Paid % for loans	220 953	153 368	314 388	218 223
Paid % for financial lease	52 079	38 023	74 102	54 102
	273 032	191 391	388 490	272 325

12. Company income tax

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Company income tax for the year of account	2 277	65 185	3 240	92 750
	2 277	65 185	3 240	92 750
Deferred company income tax	-50 897	5 818	-72 420	8 278
	-50 897	5 818	-72 420	8 278

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

Deferred company income tax:

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
<i>Liabilities of the deferred company income tax</i>				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	3 389 011	4 375 308	4 822 128	6 225 502
Residual value of capital assets needed for taxes	2 051 955	684 076	2 919 669	973 352
Uzkrājumi šaubīgiem debitoriem	45 415			
Accruals for holidays	48 022	61 140	68 329	86 994
Temporary difference	1 243 619	1 630 092	1 769 510	2 319 412
Liabilities of deferred tax	186 543	244 514	265 427	347 912

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

13. Intangible investments

	Software	Intangible value	Advance payments for intangible investments	Total
	LVL	LVL	LVL	LVL
Initial value 31.12.2007.	27 447	132 000	20 210	179 657
Purchase	29 799		11 000	40 799
2007 Decrease of value	(3 150)		(31 210)	(34 360)
				-
Initial value 31.12.2008.	54 096	132 000	-	186 096
Accured depreciation 31.12.2007.	15 214			15 214
Depreciation	7 075			7 075
2008 Decrease of value	(3 045)			(3 045)
				-
Accured depreciation 31.12.2008.	19 244	-	-	19 244
Residual value 31.12.2007.	12 233	132 000	20 210	164 443
Residual value 31.12.2008.	34 852	132 000	-	166 852
Depreciation rate (by the linear method)	5 years			

	Software	Intangible value	Advance payments for intangible investments	Total
	EUR	EUR	EUR	EUR
Initial value 31.12.2006.	39 054	187 819	28 756	255 629
Purchase	42 400	-	15 652	58 052
2007 Decrease of value	(4 482)	-	(44 408)	(48 890)
	-	-	-	-
Initial value 31.12.2007.	76 972	187 819	-	264 791
Accured depreciation 31.12.2007.	21 648	-	-	21 648
Depreciation	10 067	-	-	10 067
2008 Decrease of value	(4 333)	-	-	(4 333)
	-	-	-	-
Accured depreciation 31.12.2008.	27 382	-	-	27 382
Residual value 31.12.2007.	17 406	187 819	28 756	233 981
Residual value 31.12.2008.	49 590	187 819	-	237 409
Depreciation rate (by the linear method)	5 gadi			

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

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

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
General administration costs	7 065	5 178	10 053	7 368

Company's intangible value

The intangible value of the Holding in 2007 is 132 000 Ls. It arose due to the purchase of Pakuļi Sports Centre Ltd. which is 100 % subsidiary company of the joint-stock company Saldus mežrūpniecība. In order to check and to decrease its intangible value, a recoverable value was established for Pakuļi Sports centre Ltd. In 2005 a certified real estate valuator estimated that the value of land which is in possession of Pakuļi Sports Centre Ltd. amount of which is 20,96 ha (at the time of purchase the value of land made 80-90 % of its assets) is 146 000 lats (i.e. 0,70 Ls/m²). The management asked to evaluate the value of this real estate again by the Association of Real Estate Valuation and received their valuation which exceeds the purchase price of this real estate- 157 000 Ls (i.e. . 0,75 Ls/m²). As a result there does not have to be acknowledged the decrease of intangible value.

14. Capital assets

	Land, buildings and systems	Biological assets	Equipment and machinery	Other capital assets	Unfinished construction	Total, except for advance payments for capital assets
	LVL	LVL	LVL	LVL	LVL	LVL
Accounting value 31.12.2007.	2 746 198		3 676 558	105 567	694 162	7 222 485
2008 Purchase	55 305	600 488	524 517	9 244	897 932	2 087 486
Liquidity	(138 503)		(1 269 253)	(19 397)	(828 552)	(2 255 705)
Reconstruction*	797 391					797 391
Reshuffle						-
Accounting value 31.12.2008.	3 460 391	600 488	2 931 822	95 414	763 542	7 851 657
Accrued wear and tear 31.12.2007.	430 877		1 148 271	61 812	185 176	1 826 136
2008 Wear and tear	117 517		503 991	14 979		636 487
Wear and tear of liquid assets	(100 208)		(564 073)	(15 225)		(679 506)
Reshuffles	1 223		21 639	1 862	54 846	79 570
Accrued wear and tear 31.12.2008.	449 409		1 109 828	63 428	240 022	1 862 687
Residual value 31.12.2007.	2 315 321		2 528 287	43 755	508 986	5 396 349
Residual value 31.12.2008.	3 010 982	600 488	1 821 994	31 986	523 520	5 988 970

Rate of wear and tear (linear method)

5-20 years

5-10 years

5 years

	Land, buildings and systems	Biological assets	Equipment and machinery	Other capital assets	Unfinished construction	Total, except for advance payments for capital assets
	EUR		EUR	EUR	EUR	EUR
Accounting value 31.12.2007.	3 907 488		5 231 271	150 208	987 703	10 276 670
2008 Purchase	78 692	854 417	746 320	13 153	1 277 643	2 970 226
Liquidity	(197 072)		(1 805 984)	(27 599)	(1 178 923)	(3 209 579)
Reconstruction*	1 134 585		-	-	-	1 134 585
Put into operation	-		-	-	-	-
Accounting value 31.12.2008.	4 923 693	854 417	4 171 607	135 762	1 086 423	11 171 902
Accrued wear and tear 31.12.2007.	613 083		1 633 842	87 951	263 482	2 598 356
2008 Wear and tear	167 212		717 115	21 313	-	905 639
Wear and tear of liquid assets	(142 583)		(802 604)	(21 663)	-	(966 848)
Reshuffles	1 740		30 790	2 649	78 039	113 218
Accrued wear and tear 31.12.2008.	639 451		1 579 143	90 250	341 521	2 650 366
Residual value 31.12.2007.	3 294 405	-	3 597 428	62 258	724 221	7 678 313
Residual value 31.12.2008.	4 284 241	854 417	2 592 464	45 512	744 902	8 521 536

Rate of wear and tear (linear method)

5-20 years

5-10 years

5 years

15. Unfinished construction and advance payments for capital assets

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Piece of land added to the existing property	797 391		1 134 585	
*reconstruction in total:	797 391		1 134 585	
Shooting-range and recreation territory in Pakuļi Sports Centre Itc	78 872	78 872	112 225	112 225
Unfinished construction in Russia	359 694	415 574	511 798	
Trade centre		14 540		20 689
Repair shops	8 016			0
Sawing line for small timber	40 583			0
Sorting line for dry sawn timber	36 355			0
in total unfinished constructio objects:	523 520	508 986	624 023	132 913
for the delivery of PI in 2008		10 951		15 582
in total advance payments for capital assets		10 951		15 582

16. Reserves

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Materials, spare parts, inventory	602 957	174 495	857 931	248 284
Round timber in forests	414 273	305 480	589 457	434 659
Round timber at rads and in workshops	433 478	524 840	616 784	746 780
Sawn timber	123 732	293 978	176 055	418 293
in total unfinished construction	971 483	1 124 298	1 382 296	1 599 732
Finished production	583 791	151 229	830 660	215 179
Advance payments for goods	912 478	86 150	1 298 339	122 580

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

17. Debts of buyers and customers

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
For transport services	41 006	9 750	58 346	13 873
For the lease of immovables and equipment	13 115	15 010	18 661	21 357
For timber	774 153	824 522	1 101 520	1 173 189
Other services		255		363
debtors debts in total	828 274	849 537	1 178 528	1 208 782
accruals for doubtful debtors	45 415	31 351	64 620	44 608
Debts of buyers and customers in net value:	782 859	818 186	1 113 908	1 164 174

Residuals of debtors debts in the balance sheet are shown in their net value except for the reserves for doubtful debts in the amount of 14084 LVL (20040 EUR) which were established from the accounting value of these debts.

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

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

18. Other debtors

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Deferred VAT	39 546	57 452	56 269	81 747
Surplus company income tax payment	20 960			
Surplus VAT payment	13 297	82 657	18 920	117 610
VAT paid in advance on boarder	470	470	669	669
Surplus URN payment	222	924	316	1 315
Other debtors	104 841	93 201	149 175	132 613
Advance payment to the customs for cargo carried equipment				0
Advance payments for other services				0
<i>In total other debtors</i>	<i>179 337</i>	<i>234 704</i>	<i>225 349</i>	<i>333 954</i>

19. Expenditures of the next periods

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Insurance	7 210	208	10 259	
Transaction account				0
Licence fees	637	1 993	906	2 836
Other	110475	16490		
<i>In total expenditure of the next periods</i>	<i>118 322</i>	<i>18 691</i>	<i>11 165</i>	<i>2 836</i>

20. Money and its equivalents

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Money in accounts	479 985	14 310	682 957	20 361
Money in cash	789	6 614	1 123	9 411
<i>In total other debtors</i>	<i>480 774</i>	<i>20 924</i>	<i>684 080</i>	<i>29 772</i>

20. Share capital, reserves and profit per share

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

	%	2008 LVL	2008 EUR
Shares of closed issue			
LTD SEZ Laskana	26	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	27	104 489	148 674
Physical persons of the Republic of Latvia	3	11 577	16 473
SIA JL Lindex	16	61 915	
Shares of public offering *	28	108 500	154 382
Total:	100	387 136	462 748
	31.12.2007	387136	550 845
	31.12.2008	387136	550 845

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

All shares are signed, issued and fully paid.

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

A nominal value of each share is 1 Latvian lat.

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

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Profit of the period of account	-219 076	374 155	-311 717	532 375
Number of shares 31.12.2008	387 136	387 136	550 845	550 845
Basic profit per share per year	-0.57	0.97	-0.81	1.38

21. Loans from credit institutions

	% rate in force	Atmaksas termiņš	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Long-term:						
A/s Swedbanka	6 mon.Euribor + 1.5%	1 year or more	3 969	51 763	5 647	73 652
A/s Swedbanka	3 mon.Euribor + 0.9-1.2%	1 year or more	632 790	781 837	900 379	1 112 454
A/s Nordea banka	3 mon.Euribor + 0.8%	1 year or more	1 021 298	1 152 452	1 453 176	1 639 791
A/s Swedbanka	3 mon.Euribor + 5.0%	1 year or more	368 554			
A/s Swedbanka	3 mon. Euribor + 0.9%	1 year or more	89 349	92 507	127 132	131 626
			2 115 960	2 078 559	2 486 335	2 957 523
Short-term:						
A/s Swedbanka	3 mon.Rigibor + 1.3%;	up to 12 mon.	1 627 223	572 029	2 315 330	813 924
creditline	3 mon.Euribor + 1.3%					
A/s Nordea banka	3 mon.Euribor + 0.8%	up to 12 mon.	130 370	129 587	185 500	184 386
A/s Swedbanka	6 mon.Euribor + 1.5%	up to 12 mon.	47 794	50 640	68 005	72 054
A/s Swedbanka	3 mon.Euribor + 0.9%	up to 12 mon.	8 500	17 976	12 094	25 578
A/s Swedbanka	3 mon.Euribor + 4.0%	up to 12 mon.	122 828		174 768	
A/s Swedbanka	3 mon.Euribor + 0.9-1.2%	up to 12 mon.	149 048	179 959	212 076	256 059
			2 085 763	950 191	2 967 773	1 352 000

22. Liabilities of financial lease and other loans

	% rate in force	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Long-term:					
SIA Hanza lizings	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	393 990	642 671	560 597	914 438
SIA Nordea Lizings	6 mon. Libor +1.5- 2.25%;6 mon. Euribor+1.2%	27 935	44 778	39 748	63 713
SIA Hanza lizings	3 mon. Rigibor+0.8- 1.92%			0	0
Other loans		1 409 608	21 570		30 691
		1 831 533	709 019	600 345	1 008 843
Short-term:					
SIA Hanza lizings	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	208 638	251 464	296 865	357 801
SIA Nordea Lizings	6 mon. Libor+1.5- 2.25%; 6 mon. Euribor+1.2%	27 681	75 060	39 387	106 801
SIA Hanza lizings	3 mon. Rigibor+0.8- 1.92%			0	0
Other loans			454		646
		236 319	326 978	336 252	465 248

22. Taxes payable

	31.12.2007 LVL	Paid in 2008 LVL	Calculated in 2008 LVL	31.12.2008 LVL
Company Income Tax	35 706	79 360	23 214	(20 440)
VAT	(82 657)	314 490	383 850	(13 297)
VAT on the boarder	(470)	-	-	(470)
Peoples Income Tax	45 263	200 645	178 171	22 789
Compulsory Payments of Social Insurance Tax	18 226	311 975	309 396	15 647
Natural Resources Tax	150	150	-	-
Property Tax	974	11 748	10 783	9
URN	(923)	9	711	(221)
Taxes pursuant to other legislation				9908
	EUR	EUR	EUR	EUR
Company Income Tax	50 805	112 919	33 031	(29 083)
VAT	(117 610)	447 479	546 169	(18 920)
VAT on the boarder	(669)	-	-	(669)
Peoples Income Tax	64 403	285 492	253 514	32 426
Compulsory Payments of Social Insurance Tax	25 933	443 900	440 231	22 264
Natural Resources Tax	213	213	-	-
Property Tax	1 386	16 716	15 343	13
URN	(1 313)	13	1 012	(314)
Taxes pursuant to other legislation				14 098

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

23. Other liabilities

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Wages	28 813	129 326	40 997	184 014
Payments in private pension funds	2 138	1 573	3 042	2 238
Other	26 836	10 983	38 184	15 627
	57 787	141 882	82 223	201 880

24. Accrued liabilities

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Accrued for holidays	48 022	61 140	68 329	86 994
	48 022	61 140	68 329	86 994

25. Incomes from the next periods

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Long-term:				
Project No. 124000041	57 199	68 452	81 387	97 398
Project No.04/415034/0002/023	24 930	29 918	35 472	42 569
	82 129	98 370	116 859	139 968
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No.04/415034/0002/023	4 988	4 988	7 097	7 097
	16 241	16 241	23 109	23 109

26. Expenditures due to the environment protection

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

27. Transactions with associated persons

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28. Financial instruments

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

Financial risks

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

Credit risk

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

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

Foreign currency risk

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

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

Interest risk

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

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

Liquidity risk

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

Real value

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

29. Events after the year of account

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



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of SALDUS MEŽRŪPNIECĪBA JSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SALDUS MEŽRŪPNIECĪBA JSC which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management responsibility on the presentation of the financial statement

The management of SALDUS MEŽRŪPNIECĪBA JSC is responsible for drawing up of the consolidated financial statement and accuracy of the information contained in the said report presented pursuant to the Republic of Latvia law "On annual reports". This responsibility implies establishment, implementation and maintenance of such internal control that is to ensure the drawing up and true and fair presentation of the financial report that is free from material misstatement resulting from fraudulent activity or errors, selection and use of an appropriate accounting policy, as well as preparation of accounting estimates suitable in the particular conditions.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statement based on our audit. We performed the audit in accordance with the International Standards on Audit recognized in Latvia. These standards stipulate ethical norms to be observed by the auditor and require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

The audit includes procedures undertaken to obtain audit evidence on the amounts presented in the consolidated financial statements and the information disclosed. The procedures are selected based on the auditor's professional judgement, including assessment of risk of fraudulent misrepresentation or material discrepancies in the financial statement. When performing risk assessment, the auditor takes into account internal control established to ensure the drawing up of the financial statements and accurate presentation of information in the reports aimed at determining the most appropriate procedures in the particular situation, rather than expressing an opinion on the efficiency of control. The audit also includes general evaluation of whether the

applied accounting principles and relevant management assumptions, as well as the information presented in the financial statements are reasonably justified.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statement presents fairly, in all material respects the financial position of the SALDUS MEŽRŪPNIECĪBA JSC as of December 31, 2008, and of the results of its financial performance and cash flows for the year 2008 in accordance with the law of the Republic of Latvia "On annual reports".

Report on the conformity of the management report

We have familiarised ourselves with the management report for the year 2008 and have not disclosed any material discrepancies between the financial information presented in the management report and the consolidated financial statement for the year 2008.


G. Jaunzeme
Sworn auditor, certificate No.16
Member of the Board
"KONSULTS" Ltd
Audit Company Licence No. 39



Cesis
30.04.2009.