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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF THE YEAR 2008

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Saldus, 2008

CONTENT

Council of joint-stock "Saldus mežrūpniecība"

Chairman of the council:	Alvis Spārns
Vice-chairman of the council:	Gunta Zoltnere
Members of the council:	Edgars Gailītis Vēsmiņš Gunvaldis Māris Elleris

From January 1, 2008 until March 31, 2008 there have not happened any changes in the joint-stock company's council.

Board of joint-stock company "Saldus mežrūpniecība"

Director of the board:	Jānis Bertrāns
Members of the board:	Ivars Feikners Gundars Maurs

From January 1, 2008 until March 31, 2008 there have not happened any changes in the joint-stock company's board.

Consolidated profit - loss calculation

	Note	31.03.2008 Ls	31.03.2007 Ls	31.03.2008 EUR	31.03.2007 EUR
Net turnover		2 416 601	2 951 919	3 438 513	4 200 202
Production costs of sold products		(2 236 686)	(2 481 626)	(3 182 517)	(3 531 036)
Gross profit		**179 915**	**470 293**	**255 996**	**669 167**
Selling costs		(19 858)	(4 201)	(28 255)	(5 977)
General and administration costs		(108 294)	(105 597)	(154 088)	(150 251)
Other income from economic activity		79 842	4 990	113 605	7 100
Other expenses from economic activity		(36 254)	(117 562)	(51 585)	(167 276)
Profit or loss from economic activity		**95 351**	**247 923**	**135 672**	**352 763**
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		10	102	14	145
Other interest payments and the like costs		(65 428)	(40 028)	(93 096)	(56 955)
Profit or loss before extraordinary items and taxes		**29 933**	**207 997**	**42 591**	**295 953**
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		**29 933**	**207 997**	**42 591**	**295 953**
Company's income tax		(4 256)	(21 809)	(6 056)	(31 031)
Deffered company's income tax		(17 266)	4 366	(24 567)	6 212
Other taxes		(11 070)	(9 914)	(15 751)	(14 106)
Profit or (loss),		**-2 659**	**180 640**	**-3 783**	**257 028**
Profit/ (loss) per share					
lats per share / EUR per share		***(0.01)***	***0.47***	***(0.01)***	***0.66***

Board:

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

Consolidated balance-sheet

Asset	Note	Assets 31.03.2008. Ls	31.12.2007. Ls	31.03.2008. EUR	31.12.2007. EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trade marks and the like costs		11 155	12 233	15 872	17 406
Intangible value of the company		132 000	132 000	187 819	187 819
Advanced payments for intangible investments		20 210	20 210	28 756	28 756
TOTAL		**163 365**	**164 443**	**232 447**	**233 981**
Fixed assets					
Land, buildings and constructions		2 272 427	2 315 321	3 233 372	3 294 405
Equipment and mashinery		2 662 485	2 528 287	3 788 375	3 597 428
Other fixed assets		43 649	43 755	62 107	62 258
Unfinished constructions		495 619	508 986	705 202	724 222
Advance payments for fixed assets			10 951	-	15 582
TOTAL		**5 474 180**	**5 407 300**	**7 789 056**	**7 693 895**
Long-term financial investments					
Partnership in the capital of related companies				-	-
Loans to related companies				-	-
TOTAL		**-**	**-**	**-**	**-**
TOTAL LONG-TERM INVESTMENTS		**5 637 545**	**5 571 743**	**8 021 504**	**7 927 876**
WORKING CAPITAL					
Reserves					
Raw materials, direct materials, auxiliary materials		206 248	174 495	293 464	248 284
Unfinished production		1 275 146	1 124 298	1 814 369	1 599 732
Made production and goods for selling		133 270	151 229	189 626	215 179
Advance payments for goods		20 328	86 150	28 924	122 580
TOTAL		**1 634 992**	**1 536 172**	**2 326 384**	**2 185 776**
Debtors					
Debts of buyers and customers		867 843	818 186	1 234 829	1 164 174
Other debtors		115 009	234 704	163 643	333 954
Accured incomes		42 887	42 887	61 023	61 023
Expenses of the following periods		31 304	18 691	44 542	26 595
TOTAL		**1 057 043**	**1 114 468**	**1 504 037**	**1 585 745**
Money and its equivalents		241 337	20 924	343 392	29 772
TOTAL WORKING CAPITAL		**2 933 372**	**2 671 564**	**4 173 812**	**3 801 293**
TOTAL ASSETS		**8 570 917**	**8 243 307**	**12 195 316**	**11 729 169**

Board:

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

Consolidated balance-sheet (continuation)

PASĪVS

	Note	31.03.2008. Ls	31.12.2007. Ls	31.03.2008. EUR	31.12.2007. 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		(864)	(64)	(1 229)	(91)
Other reserves		2 213 959	2 213 959	3 150 180	3 150 180
Retained earnings from the previous year		341 757	(32 619)	486 276	(46 413)
Retained earnings of the year of account		(2 659)	374 155	(3 783)	532 375
TOTAL		**2 941 316**	**2 944 554**	**4 185 116**	**4 189 723**
TOTAL OWN CAPITAL		**2 941 316**	**2 944 554**	**4 185 116**	**4 189 723**
CREDITORS					
Long-term creditors					
Company's deferred income tax		244 514	244 514	347 912	347 912
Long-term loans from credit institutions		2 170 018	2 078 559	3 087 657	2 957 523
Financial lease liabilities long-term part		826 087	709 019	1 175 416	1 008 843
Deferred incomes long-term part		98 370	98 370	139 968	139 968
TOTAL		**3 338 989**	**3 130 462**	**4 750 953**	**4 454 246**
Short-term creditors					
Short-term loans from credit institutions		1 205 467	950 191	1 715 225	1 352 000
Fianacial lease liabilities short-term part		367 380	326 978	522 735	465 248
Advanced payments received from customers		10 200	8 128	14 513	11 565
Debts to suppliers and contractors		478 034	555 693	680 181	790 680
Accured liabilities		61 140	61 140	86 994	86 994
Debts to related companies				-	-
Taxes payable		64 826	108 038	92 239	153 724
Other creditorsi		87 324	141 882	124 251	201 880
Incomes from following periods short-term part		16241	16241	23 109	23 109
Unpayed dividends from previous years				-	-
TOTAL		**2 290 612**	**2 168 291**	**3 259 247**	**3 085 200**
TOTAL CREDITORS		**5 629 601**	**5 298 753**	**8 010 201**	**7 539 446**
TOTAL LIABILITIES		**8 570 917**	**8 243 307**	**12 195 316**	**11 729 169**

Board:

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

Consolidated cash flow account

I. Cash flow from basic activity	31.03.2008	31.03.2007	31.03.2008	31.03.2007
	Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes	**29 933**	**208 026**	**42 591**	**295 994**
a) wear and tear of fixed assets and intangible investments (+)	201 692	119 870	286 982	170 560
b) elimination of fixed assets and intangible investments	637	29 151	906	41 478
c) formation of accruals (except the accruals for insecure debts)			-	-
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign			-	-
e) incomes from the acknowledgement of financing			-	-
f) other interest incomes and the like incomes	(10)	(102)	(14)	(145)
g) writing off of long-term financial investments and short-term value of securities			-	-
h) interest payments and the like costs	65 428	40 028	93 096	56 955
2. Profit or loss before the corrections of impact of changes of	**297 680**	**396 973**	**423 560**	**564 842**
a) increase of the remainder of debtors' debts (-) or decrease (+)	45 978	(72 998)	65 421	(103 867)
b)increase of the remainder of reserves (-) or decrease (+)	(99 104)	(335 154)	(141 012)	(476 881)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)	180 494	193 802	256 820	275 755
3 Gross cash flow from basic activity	**425 048**	**182 623**	**604 789**	**259 849**
4. Expenditures to interest payers	(65 428)	(40 028)	(93 096)	(56 955)
5. Expenditures for paying companny's income tax and immovable property tax	(32 592)	(31 834)	(46 374)	(45 296)
6. Cash flow before extraordinary items	**327 028**	**110 761**	**465 319**	**157 599**
7.Cash flow from extraordinary items				
Net cash flow from basic activity	**327 028**	**110 761**	**465 319**	**157 599**
II. Cash flow from investment activities				
1. Purchase or alienation of shares or parts of related or associated companies			-	-
2. Granted loans			-	-
3. Purchase of fixed assets and intangible assets	(300 058)	(1 371 924)	(426 944)	(1 952 072)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.	24 158	853 684	34 374	1 214 683
5. Incomes from selling fixed assets and intangible investments			-	-
6. Received interest	10	102	14	145
6.Net cash flow from investing activities	**(275 890)**	**(518 138)**	**(392 556)**	**(737 244)**
III. Cash flow from financing activities				
1. Received loans	996 719	581 287	1 418 203	827 097
2. Received financing from the EU			-	-
3. Received investment in capital			-	-
4.Expenditures to pay back loans	(670 125)	(40 855)	(953 502)	(58 131)
5. Expenditures for redemtion of a hired fixed asset	(157 188)	(91 190)	(223 658)	(129 752)
6. Disbursed dividends			-	-
6. Net cash flow from financing activity	**169 406**	**449 242**	**241 043**	**639 214**
IV. Result of fluctuactions of the exchange rate of foreign currency	(131)	96	(186)	137
V. Net cash flow of the year of account increase (+), decrease (-)	**220 413**	**41 961**	**313 619**	**59 705**
VI.Remainder of money or its equivalents at the beginning of the year of	20 924	87 744	29 772	124 848
VII. Remainder of money or its equivalents at the end of the year of	241 337	129 705	343 392	184 554

Board:

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

Consolidated account of the changes in own capital

	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/(loss) of the year of account	**Total own capital**
	Ls		**Ls**	**Ls**	**Ls**	**Ls**	**Ls**
31.12.2006	**387 136**	**(2)**	**1 987**	**2 056 620**	**(7 235)**	**235 733**	**2 674 239**
Currency fluctuations due to recalculation		(62)					(62)
Distribution of the profit of year 2006	-		-	157 339	(25 384)	(235 733)	(103 778)
Disbursed dividends	-		-				-
Profit of the year of account, correcte	-		-			374 155	374 155
31.12.2007.	**387 136**	**(64)**	**1 987**	**2 213 959**	**(32 619)**	**374 155**	**2 944 554**
Currency fluctuations due to recalculation		(800)			221		(579)
Reserves of recalculation	-		-	-			-
Distribution of the profit of year 2007	-		-	-	374 155	(374 155)	-
Estimated dividends	-		-				-
Profit of the year of account	-		-	-		(2 659)	(2 659)
31.03.2008	**387 136**	**(864)**	**1 987**	**2 213 959**	**341 757**	**(2 659)**	**2 941 316**

	Share capital	Currency fluctuations due to recalculation of foreign currency	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	**Total own capital**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
31.12.2006	**550 845**	**(3)**	**2 827**	**2 926 307**	**(10 294)**	**335 418**	**3 805 099**
Currency fluctuations due to recalcul	-	(88)	-	-	-	-	(88)
Distribution of the profit of year 2006	-	-	-	223 873	(36 118)	(335 418)	(147 663)
Disbursed dividends	-	-	-	-	-	-	-
Profit of the year of account, correcte	-	-	-	-	-	532 375	532 375
31.12.2007.	**550 845**	**(91)**	**2 827**	**3 150 180**	**(46 413)**	**532 375**	**4 189 723**
Currency fluctuations due to recalcul	-	(1 138)	-	-	314	-	(824)
Reserves of recalculation	-	-	-	-	-	-	-
Distribution of the profit of year 2007	-	-	-	-	532 375	(532 375)	-
Estimated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(3 783)	(3 783)
31.03.2008	**550 845**	**(1 229)**	**2 827**	**3 150 180**	**486 276**	**(3 783)**	**4 185 116**

Board:

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

Annex to the financial statement

1. Corporative information

Distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC "Saldus mežrūpniecība" established new subsidiary companies in the Russian Federation, which main economic activity will be logging and production of sawn timber. In 2005, JSC "Saldus mežrūpniecība" purchased 100% shares of "Pakuļi Sports Centre" Ltd., which main activity is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.
As the result of the above mentioned activities JSC "Saldus mežrūpniecība" has prepared its year 2006 consolidated report, hereinafter Holding company.

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

1. Name of the company	**Pakuļu sporta bāze / Pakuļi Sports Centre**
Legal status of the company	Limited liability company
Registration number, registration date in commercial register	48503009010 November 21, 2002
Address	Meždvidi, 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- March 31, 2008
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- March 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- March 31, 2008

2. Important accounting principles

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

Principles of preparation of financial statement

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

Currency and units used in the preparation of the financial statement

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

Consolidation

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

Consolidation of foreign subsidiary companies

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

Changes in the accounting principles

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

Use of International Financial Reporting Standards (IFRS):

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

2. Important accounting principles (continuation)

Use of calculation (continuation)

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

Operations in foreign currency

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

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

	31.03.2008.	**31.03.2007.**
USD/ LVL	0,445	0,528
RUB/ LVL	0.0189	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
Forest equipment	- 5 years
Timber processing lines	- 5 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 priciples (continuation)

Leasing

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

Reserves

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

Materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers and other debtors

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

Money and its equivalents

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

Share capital

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

Profit per share

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

2. Important accounting principles- income acknowledgement (continuation)

Credits and loans

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

Accruals

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

Accruals and deferred liabilities

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

Income acknowledgement

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

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

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

Sale of goods

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

Interest

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

Dividends

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

Leasing incomes

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

2. Important accounting principles- income acknowledgement (continuation)

Taxes

Company's income tax

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

Deferred income tax

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

Possible liabilities and assets

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

Employee benefits

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

Connected persons

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

Events after the end of the year of account

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

3. Segments of the holding company's activity

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	logging		wood processing		Other undividable		Total	
	2008.03.31	2007.03.31	2008.03.31	2007.03.31	2008.03.31	2007.03.31	2008.03.31	2007.03.31
	Ls	*Ls*	*Ls*	*Ls*	*Ls*	*Ls*	*Ls*	*Ls*
Net turnover	1 885 283	2 108 068	462 470	764 554	68 848	79 297	2 416 601	2 951 919
Production costs of sold production	(1 646 989)	(1 786 243)	(522 973)	(630 923)	(66 724)	(64 460)	(2 236 686)	(2 481 626)
Selling costs	(13 079)	(4 201)	(6 779)				(19 858)	(4 201)
General and administration costs	(80 133)	(78 484)	(22 348)	(21 073)	(5 813)	(6 040)	(108 294)	(105 597)
Othe incomes/ (expenditures) from economic activity	561	(1 243)	52 980	(112 609)	(9 953)	1 280	43 588	(112 572)
Segment's profit	**145 643**	**237 897**	**(36 650)**	**(51)**	**(13 642)**	**10 077**	**95 351**	**247 923**
Incomes from participation in the company's capital							-	-
Financial costs, net	(29 305)	(5 486)	(2 983)	(3 357)	(33 130)	(31 083)	(65 418)	(39 926)
Company's income tax (undivided)	(18 909)		1 554		(4 167)	(17 443)	(21 522)	(17 443)
Other taxes	(2 921)	(3 251)	(3 579)	(5 729)	(4 570)	(934)	(11 070)	(9 914)
Net result	**94 508**	**229 160**	**(41 658)**	**(9 137)**	**(55 509)**	**(39 383)**	**(2 659)**	**180 640**
Segment's assets	5 999 642	5 770 315	1 714 183	1 648 661	857 092	824 331	8 570 917	8 243 307
Segment's liabilities	857 092	824 331	2 571 275	2 472 992	5 142 550	4 945 984	8 570 917	8 243 307

	logging		wood processing		Other		Total	
	2008.03.31	2007.03.31	2008.03.31	2007.03.31	2008.03.31	2007.03.31	2008.03.31	2007.03.31
	EUR	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*	*EUR*
Net turnover	2 682 516	2 999 511	658 036	1 087 862	97 962	112 829	3 438 513	4 200 202
Production costs of sold production	(2 343 454)	(2 541 595)	(744 124)	(897 723)	(94 940)	(91 718)	(3 182 517)	(3 531 036)
Selling costs	(18 610)	(5 977)	(9 646)	-	-	-	(28 255)	(5 977)
General and administration costs	(114 019)	(111 673)	(31 798)	(29 984)	(8 271)	(8 594)	(154 088)	(150 251)
Other incomes/ (expenditures) from econimic activity	798	(1 769)	75 384	(160 228)	(14 162)	1 821	62 020	(160 176)
Segment's profit	**207 231**	**338 497**	**(52 148)**	**(73)**	**(19 411)**	**14 338**	**135 672**	**352 763**
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(41 697)	(7 806)	(4 244)	(4 777)	(47 140)	(44 227)	(93 081)	(56 810)
Company's income tax (undivided)	(26 905)	-	2 211	-	(5 929)	(24 819)	(30 623)	(24 819)
Other taxes	(4 156)	(4 626)	(5 092)	(8 152)	(6 503)	(1 329)	(15 751)	(14 106)
Net result	**134 473**	**326 065**	**(59 274)**	**(13 001)**	**(78 982)**	**(56 037)**	**(3 783)**	**257 028**
Segment's assets	8 536 721	8 210 419	2 439 063	2 345 833	1 219 532	1 172 917	12 195 316	11 729 169
Segment's liabilities	1 219 532	1 172 917	3 658 595	3 518 751	7 317 189	7 037 501	12 195 316	11 729 169

4. 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.

5. 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.

	2008.03.31 Ls	**2007.03.31** Ls	**2008.03.31** EUR	**2007.03.31** EUR
Incomes from sales including	2 340 426	2 841 306	3 330 126	4 042 814
Latvia	2 217 040	2 575 211	3 154 564	3 664 195
Russia	69 268	5 903	98 559	
European Union countries	54 118	260 192	77 003	370 220
Icomes from rendering of services, including	76 175	110 613	108 387	157 388
Latvia	60 775	110 613	86 475	157 388
European Union countries	15 400		21 912	
	2 416 601	**2 951 919**	**3 438 513**	**4 200 202**

6. Financial instruments

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

Financial risks

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

Credit risk

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

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

Foreign currency risk

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

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

Interest rate risk

The holding company is subjected to the interest rate risk, which mainly are borrowings from credit institutions and financial leasing companies. Holding company's management think that on December 31, 2006 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

Liquidity risk

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

Real value

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

7. 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.