

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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2008

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2008

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Council of joint-stock “Saldus mežrūpniecība”

Chairman of the council:

Uldis Mierkalns

Vice-chairman of the council:

Lolita Burkovska

Members of the council:

Vēsmiņš Gunvaldis

Lauris Leja

Jānis Leimanis

On the basis of the decision No. 1 on July 3, 2008 made by shareholders during the extraordinary meeting of shareholders, there were made changes in the structure of the board of the holding. Starting from July 3, 2008 the chairman of the board is Uldis Mierkalns, the vice-chairwoman of the board is Lolita Burkovska. The members of the board were elected Lauris Leja and Jānis Leimanis. Of the responsibility of the chairman of the board was relieved Alvis Spāms, of the responsibilities of the vice-chairwoman of the board was relieved Gunta Zoltnere and of the responsibilities of the members of the board were relieved Edgars Gailītis and Māris Elleris about what in the Enterprise Register of the Republic of Latvia in accordance with the decision No. 6-12100614/1 on August 7, 2008 were made corresponding entries.

Board of joint-stock company “Saldus mežrūpniecība”

Director of the board:

Jānis Bertrāns

Members of the board:

Ivars Feikners

Gundars Maurs

Jānis Mierkalns

On the basis of the decision No. 1 on July 3, 2008 made by shareholders during the extraordinary meeting of shareholders, there were made changes in the structure of the board of directors of the holding. Starting from July 3, 2008 of the responsibilities of the member of the board of directors was relieved Gatis Zommers and as a member of the board of directors was appointed Jānis Mierkalns about what in the Enterprise Register of the Republic of Latvia in accordance with the decision No. 6-12100614/1 on August 7, 2008 were made corresponding entries.

Consolidated profit - loss calculation

	Note	31.12.2008 LVL	31.12.2007 LVL	31.12.2008 EUR	31.12.2007 EUR
Net turnover		9 757 892	12 465 576	13 884 229	17 736 917
Production costs of sold products		(9 284 882)	(11 221 354)	(13 211 197)	(15 966 548)
Gross profit		473 010	1 244 222	673 033	1 770 368
Selling costs		(204 595)	(216 877)	(291 112)	(308 588)
General and administration costs		(341 515)	(384 108)	(485 932)	(546 536)
Other income from economic activity		439 524	93 258	625 386	132 694
Other expenses from economic activity		(351 756)	(105 634)	(500 504)	(150 304)
Profit or loss from economic activity		14 668	630 861	20 871	897 634
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		23	15 552	33	22 129
Other interest payments and the like costs		(273 033)	(191 390)	(388 491)	(272 323)
Profit or loss before extraordinary items and taxes		(258 342)	455 023	(367 588)	647 439
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		(258 342)	455 023	(367 588)	647 439
Company's income tax		(25 491)	(65 185)	(36 270)	(92 750)
Deffered company's income tax		43 225	(5 818)	61 504	(8 278)
Other taxes		(11 776)	(9 865)	(16 756)	(14 037)
Profit or (loss),		-252 384	374 155	-359 110	532 375
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		<i>(0.65)</i>	<i>0.97</i>	<i>(0.93)</i>	<i>1.38</i>

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Member of the board

Gundars Maurs
Member of the board

Jānis Mierkalns
Member of the board

Consolidated balance-sheet

	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	34 852	12 233	49 590	17 406
Intangible value of the company	132 000	132 000	187 819	187 819
Advanced payments for intangible investments	-	20 210	-	28 756
TOTAL	166 852	164 443	237 409	233 981
Fixed assets				
Land, buildings and constructions, biological assets	3 611 470	2 315 321	5 138 659	3 294 405
Equipment and mashinery	1 821 994	2 528 287	2 592 464	3 597 428
Other fixed assets	32 014	43 755	45 552	62 258
Unfinished constructions	531 872	508 986	756 786	724 222
Advance payments for fixed assets	-	10 951	-	15 582
TOTAL	5 997 350	5 407 300	8 533 460	7 693 895
Long-term financial investments				
Partnership in the capital of related companies			-	-
Loans to related companies			-	-
TOTAL	-	-	-	-
TOTAL LONG-TERM INVESTMENTS	6 164 202	5 571 743	8 770 869	7 927 876
WORKING CAPITAL				
Reserves				
Raw materials, direct materials, auxiliary materials	274 098	174 495	390 006	248 284
Unfinished production	971 483	1 124 298	1 382 296	1 599 732
Biological assets	328 858		467 923	
Made production and goods for selling	583 791	151 229	830 660	215 179
Advance payments for goods	914 053	86 150	1 300 580	122 580
TOTAL	3 072 283	1 536 172	4 371 465	2 185 776
Debtors				
Debts of buyers and customers	814 938	818 186	1 159 552	1 164 174
Other debtors	158 746	234 704	225 875	333 954
Accured incomes	31 394	42 887	44 670	61 023
Expenses of the following periods	118 374	18 691	168 431	26 595
TOTAL	1 123 452	1 114 468	1 598 528	1 585 745
Money and its equivalents	480 783	20 924	684 093	29 772
TOTAL WORKING CAPITAL	4 676 518	2 671 564	6 654 086	3 801 293
TOTAL ASSETS	10 840 720	8 243 307	15 424 955	11 729 169

Board:

Jānis Bertrāns
Chairman of the boardIvars Feikners
Member of the boardGundars Maurs
Member of the boardJānis Mierkalns
Member of the board

Consolidated balance-sheet (continuation)

	Note	PASĪVS			
		31.12.2008	31.12.2007	31.12.2008	31.12.2007.
		LVL	LVL	EUR	EUR
OWN CAPITAL					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Reserves from reestimates on fixed assets		800 242		1 138 642	
Adjustment reserve of foreign currency		(120 061)	(64)	(170 831)	(91)
Other reserves		2 213 959	2 213 959	3 150 180	3 150 180
Retained earnings from the previous year		342 221	(32 619)	486 937	(46 413)
Retained earnings of the year of account		(252 384)	374 155	(359 110)	532 375
TOTAL		3 373 100	2 944 554	4 799 489	4 189 723
TOTAL OWN CAPITAL		3 373 100	2 944 554	4 799 489	4 189 723
CREDITORS					
Long-term creditors					
Company's deferred income tax		203 566	244 514	289 648	347 912
Long-term loans from credit institutions		2 115 974	2 078 559	3 010 760	2 957 523
Financial lease liabilities long-term part		1 831 549	709 019	2 606 059	1 008 843
Deferred incomes long-term part		134 969	98 370	192 044	139 968
TOTAL		4 286 058	3 130 462	6 098 511	4 454 246
Short-term creditors					
Short-term loans from credit institutions		2 085 763	950 191	2 967 773	1 352 000
Financial lease liabilities short-term part		236 319	326 978	336 252	465 248
Advanced payments received from customers		228 126	8 128	324 594	11 565
Debts to suppliers and contractors		459 742	555 693	654 154	790 680
Accrued liabilities		48 077	61 140	68 407	86 994
Debts to associated companies		-	-	-	-
Taxes payable		48 098	108 038	68 437	153 724
Other creditors		59 196	141 882	84 228	201 880
Incomes from following periods short-term part		16 241	16 241	23 109	23 109
Unpaid dividends from previous years		-	-	-	-
TOTAL		3 181 562	2 168 291	4 526 955	3 085 200
TOTAL CREDITORS		7 467 620	5 298 753	10 625 466	7 539 446
TOTAL LIABILITIES		10 840 720	8 243 307	15 424 955	11 729 169

Board:

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Chairman of the board

Ivars Feikners
Member of the board

Gundars Maurs
Member of the board

Jānis Mierkalns
Member of the board

Consolidated cash flow account

	Ls	Ls	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes	(258 342)	455 023	(367 588)	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	156 287	162 339	222 376	230 988
c) formation of accruals (except the accruals for insecure debts)	13 118	(13 528)	18 665	(19 249)
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign	(10 216)	29 643	(14 536)	42 178
e) incomes from the acknowledgement of financing	36 599	(16 241)	52 076	(23 109)
f) other interest incomes and the like incomes	(20)	(15 536)	(28)	(22 106)
g) writing off of long-term financial investments and short-term value of securities			-	-
h) interest payments and the like costs	236 462	200 592	336 455	285 417
2. Profit or loss before the corrections of impact of changes of	827 191	1 523 749	1 176 987	2 168 099
a) increase of the remainder of debtors' debts (-) or decrease (+)	15 827	(447 875)	22 520	(637 269)
b) increase of the remainder of reserves (-) or decrease (+)	(1 531 206)	(660 847)	(2 178 710)	(940 301)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)	180 623	215 216	257 003	306 225
3 Gross cash flow from basic activity	(507 565)	630 243	(722 200)	896 755
4. Expenditures to interest payers	(236 462)	(200 592)	(336 455)	(285 417)
5. Expenditures for paying company's income tax and immovable property tax	5 958	(44 972)	8 477	(63 989)
6. Cash flow before extraordinary items	(738 069)	384 679	(1 050 178)	547 349
7. Cash flow from extraordinary items				
Net cash flow from basic activity	(738 069)	384 679	(1 050 178)	547 349
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	(630 738)	(457 074)	(897 459)	(650 358)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.	(47 605)	(358 172)	(67 736)	(509 633)
5. Incomes from selling fixed assets and intangible investments	5 132	359 611	7 302	511 680
6. Received interest	20	2 854	28	4 061
6. Net cash flow from investing activities	(673 191)	(452 781)	(957 864)	(644 249)
III. Cash flow from financing activities				
1. Received loans	3 428 158	1 123 136	4 877 829	1 598 079
2. Received financing from the EU			-	-
3. Received investment in capital			-	-
4. Expenditures to pay back loans	(946 072)	(604 988)	(1 346 139)	(860 820)
5. Expenditures for redemption of a hired fixed asset	(668 228)	(390 082)	(950 803)	(555 037)
6. Disbursed dividends		(96 784)	-	(137 711)
6. Net cash flow from financing activity	1 813 858	31 282	2 580 887	44 510
IV. Result of fluctuations of the exchange rate of foreign currency	57 261	(30 000)	81 475	(42 686)
V. Net cash flow of the year of account increase (+), decrease (-)	459 859	(66 820)	654 320	(95 076)
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	480 783	20 924	684 093	29 772

Board:

Jānis Bertrāns
Chairman of the boardIvars Feikners
Member of the boardGundars Maurs
Member of the boardJānis Mierkalns
Member of the board

Consolidated account of the changes in own capital

joint-stock company Saldus mežrūpniecība							
	Share capital	Currency fluctuations due to recalculation of foreign	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(los s) of the year of account	Total own capital
	LVL		LVL	LVL	LVL	LVL	LVL
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, corrected	-		-			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		(119 997)			685		(119 312)
Reserves of recalculation	-		-	-			-
Distribution of the profit of year 2007	-		-	-	374 155	(374 155)	-
Resserves from reestimati on fixed assets	-		-	800 242			800 242
Profit of the year of account	-		-	-		(252 384)	(252 384)
31.12.2008	387 136	(120 061)	1 987	3 014 201	342 221	(252 384)	3 373 100

	Share capital	Currency fluctuations due to recalculation of foreign currency	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(los s) of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2006	550 845	(3)	2 827	2 926 307	(10 294)	335 418	3 805 099
Currency fluctuations due to recalculation	-	(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, corrected	-	-	-	-	-	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 recalculation	-	(170 740)	-	-	975	-	(169 766)
Reserves of recalculation	-	-	-	-	-	-	-
Distribution of the profit of year 2007	-	-	-	-	532 375	(532 375)	-
Resserves from reestimati on fixed assets	-	-	-	1 138 642	-	-	1 138 642
Profit of the year of account	-	-	-	-	-	(359 110)	(359 110)
31.12.2008	550 845	(170 831)	2 827	4 288 822	486 937	(359 110)	4 799 489

Board:

Jānis Bertrāns
Chairman of the board

Ivars Feikners
Member of the board

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Member of the board

Annex to the financial statement

1. Corporate information

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

As 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

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 DOK Nr.3, 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 DOK Nr.3 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 DOK Nr.3, conversion of currency, used in these companies, into currency, used in the holding company, is done by taking into consideration the exchange rate, which is valid on the day of balance, but regarding profit or loss items- the exchange rate, which is valid at the end of the year of account. The corrections of revaluation are shown in a separate item of the own capital.

	31.12.2008.	31.12.2007.
USD/ LVL	0,495	0,484
RUB/ LVL	0.0171	0.0197
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	- 5 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 fixed assets	- 5 years
Computing devises and data storage systems, software	- 5 years

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

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

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

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

Decrease of the value of assets

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

Costs of loans

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

2. Important accounting principles (continuation)

Leasing

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

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

Reserves

Unfinished production

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

Materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers and other debtors

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

Money and its equivalents

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

Share capital

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

Profit per share

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

2. Important accounting principles- income acknowledgement (continuation)

Credits and loans

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

Further loans will be shown in their amortized value.

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

Accruals

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

Accruals and deferred liabilities

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

Income acknowledgement

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

Rendering of services

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

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

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

Sale of goods

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

Interest

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

Dividends

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

Leasing incomes

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

2. Important accounting principles- income acknowledgement (continuation)

Taxes

Company's income tax

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

Deferred income tax

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

Possible liabilities and assets

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

Employee benefits

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

Connected persons

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

Events after the end of the year of account

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

3. Segments of the holding company's activity

	logging		wood processing		Other undividable		Total	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	7 081 446	9 375 363	2 356 369	3 084 273	320 077	5 940	9 757 892	12 465 576
Production costs of sold production	(6 585 062)	(8 301 977)	(2 394 280)	(2 904 822)	(305 540)	(14 555)	(9 284 882)	(11 221 354)
Selling costs	(119 567)	(216 877)	(48 157)		(36 871)		(204 595)	(216 877)
General and administration costs	(165 670)	(63 928)	(68 463)	(5 409)	(107 382)	(314 770)	(341 515)	(384 107)
Other incomes/ (expenditures)	153 334	57 432	(76 063)	(10 860)	10 497	(58 948)	87 768	(12 376)
from economic activity								
Segment's profit	364 481	850 013	(230 594)	163 182	(119 219)	(382 333)	14 668	630 862
Incomes from participation in the company's capital							-	-
Financial costs, net	(166 680)	(57 102)	(89 183)	(19 790)	(17 147)	(98 947)	(273 010)	(175 839)
Company's income tax (undivided)					17 734	(71 003)	17 734	(71 003)
Other taxes	(8 187)	(5 426)	(2 902)	(4 439)	(687)	-	(11 776)	(9 865)
Net result	189 614	787 485	(322 679)	138 953	(119 319)	(552 283)	(252 384)	374 155
Segment's assets	5 781 524	3 269 884	2 102 372	3 421 707	2 627 966	1 551 716	10 511 862	8 243 307
Segment's liabilities	4 730 338	3 768 961	1 576 779	1 489 216	4 204 745	2 985 130	10 511 862	8 243 307

	logging		wood processing		Other		Total	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	10 075 990	13 339 940	3 352 811	4 388 525	455 429	8 452	13 884 229	17 736 917
Production costs of sold production	(9 369 699)	(11 812 649)	(3 406 754)	(4 133 189)	(434 744)	(20 710)	(13 211 197)	(15 966 548)
Selling costs	(170 129)	(308 588)	(68 521)	-	(52 463)	-	(291 112)	(308 588)
General and administration costs	(235 727)	(90 961)	(97 414)	(7 696)	(152 791)	(447 877)	(485 932)	(546 535)
Other incomes/ (expenditures) from economic activity	218 175	81 718	(108 228)	(15 452)	14 936	(83 875)	124 883	(17 609)
Segment's profit	518 610	1 209 460	(328 106)	232 187	(169 633)	(544 011)	20 871	897 636
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(237 164)	(81 249)	(126 896)	(28 159)	(24 398)	(140 789)	(388 458)	(250 196)
Company's income tax (undivided)	-	-	-	-	25 233	(101 028)	25 233	(101 028)
Other taxes	(11 649)	(7 721)	(4 129)	(6 316)	(978)	-	(16 756)	(14 037)
Net result	269 796	1 120 490	(459 131)	197 712	(169 776)	(785 828)	(359 110)	532 375
Segment's assets	8 226 368	4 652 626	2 991 406	4 868 650	3 739 259	2 207 893	14 957 032	11 729 169
Segment's liabilities	6 730 665	5 362 748	2 243 554	2 118 963	5 982 813	4 247 457	14 957 032	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.

	31.12.2008 LVL	31.12.2007 LVL	31.12.2008 EUR	31.12.2007 EUR
Incomes from sales including	9 510 337	12 060 576	13 531 990	17 160 654
Latvia	8 994 393	11 095 518	12 797 868	15 787 500
Russia	365 417	182 869	519 942	260 199
European Union countries	150 527	782 189	214 181	1 112 955
Incomes from rendering of services, including	247 555	405 000	352 239	576 263
Latvia	224 154	385 868	318 942	549 041
European Union countries	23 401		33 297	
	9 757 892	12 465 576	13 884 229	17 736 917

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, 2008 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.

Statement about the responsibility of management

Management of the company is responsible for developing financial statements, which are based on initial accounting for each accounting period and faithfully reflect financial status of the company at the end of an accounting period, as well as on the results of its activity and cash flow for the period.

Management verifies that when the report for the period, which ends on December 31, 2008, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

Management is responsible for keeping relevant accounting records, for maintaining company's assets and for preventing deception and ignominy.