

**JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”**

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE YEAR 2009**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

**Saldus, 2010**

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Address: Kuldīgas 86c, Saldus, LV-3801,  
Saldus District., Republic of Latvia  
Single registration number: 40003020121

## Information about the Company

Name of the Company	<b>Saldus Timber Wood Industry (Saldus mežrūpniecība)</b>
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
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 Janis Merkals ( <i>Jānis Mierkalns</i> ) – member of the Board Gundars Maurs ( <i>Gundars Maurs</i> ) – member of the Board Gatis Zommers ( <i>Gatis Zommers</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 Maris Elleris ( <i>Māris Elleris</i> ) – member of the Council Janis Leimanis ( <i>Jānis Leimanis</i> ) – member of the Council Ainis Dabols ( <i>Ainis Dābols</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, 2009
2. Name of the company	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> )
Legal status of the company	(100%) Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 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, 2009
3. Name of the company	Saldus ( <i>Салдус</i> ) (100%)
Legal status of the company	Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 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, 2009
Name and address of the Auditor	(Translated from Latvian) Ginta Jaunzeme ( <i>Ginta Jaunzeme</i> ) Sworn Auditor (Certificate of Latvian Sworn Auditor No.16) License of Commercial Company No.39

## Management announcement

### *To Report of economic activity of Year 2009*

#### **Business description in the framework of report period**

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

From the mid-year of 2009, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

The profit of JSC „Saldus mežrūpniecība” of Year 2009 from economic activities after tax deductions is 15988 LVL, whereby Net turnover is 9 173210 LVL, which comprise profit per emitted share 0,04 LVL.

The financial report is prepared on the base of information that is at share company board's disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company. There is true information included in the announcement.

#### **Important events after the end of year of account**

From the end of period of account until the moment of approval of the report, there were no significant events that could make impact on the financial position of the holding that was fixed in the finance report.

#### **Forecasts for financial indicators and plans for economic activities in 2010**

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

In 2010, it is planned to increase the production and realization volumes in logging by 40 %, i.e. up to 350 000 m<sup>3</sup> yearly. It is planned to increase the production and realization volumes for sawn timber up to 150 000 m<sup>3</sup> yearly. It is envisaged that profit indicators will remain in the level of 2009.

#### **Business and financial risk management policy**

In order to increase competitiveness of the company in this economic situation, the production volumes are being increased by more rational use of company resources, by organization of long-term cooperation with providers of resources and the growing demand in the timber market is taken into account. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.

The interests of the commercial company are the care for social protection and welfare of its employees, because only thus the development of society can be sustainable.

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economical activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks

April 30.2010

Board:

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Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

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## Profit or loss calculation

	Note	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Net turnover	4	9 173 210	9 463 671	13 052 302	13 465 591
Production costs of the sold production	5	(8 059 780)	(9 097 640)	(11 468 034)	(12 944 775)
<b>Gross profit</b>		<b>1 113 430</b>	<b>366 031</b>	<b>1 584 268</b>	<b>520 815</b>
Selling costs	6	(835 997)	(81 135)	(1 189 517)	(115 445)
General administration costs	7	(158 529)	(285 620)	(225 566)	(406 401)
Other income from company's economic activity	8	274 378	204 536	390 405	291 029
Other expenditures from company's economic activity	8	(166 515)	(77 349)	(236 929)	(110 058)
<b>Profit or loss from economic activity</b>		<b>226 767</b>	<b>126 463</b>	<b>322 660</b>	<b>179 941</b>
Net profit from participation in the capital of subsidiary and associated companies					-
Other interest income and the like income	10	-	20	-	28
Other interest payments and the like payments	10	(206 753)	(236 462)	(294 183)	(336 455)
<b>Profit or loss before extraordinary items and taxes</b>		<b>20 014</b>	<b>(109 979)</b>	<b>28 477</b>	<b>(156 486)</b>
Extraordinary income					
Extraordinary expenditures					
<b>Profit or loss before taxes</b>		<b>20 014</b>	<b>(109 979)</b>	<b>28 477</b>	<b>(156 486)</b>
Company's income tax		(35 084)	-	(49 920)	-
Company's deferred income tax	11	43 203	57 971	61 472	82 485
Other taxes	11	(12 145)	(10 666)	(17 281)	(15 176)
<b>Profit or (loss)</b>		<b>15 988</b>	<b>-62 674</b>	<b>22 749</b>	<b>-89 177</b>
<b>Profit/ (loss) per share</b>					
<i>lats per share / EUR per share</i>		<i>0.04</i>	<i>(0.16)</i>	<i>0.06</i>	<i>(0.23)</i>

The annex on pages 11-30 is an integral part of this financial statement

Board :

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

## Balance sheet

		31.12.2009	31.12.2008	31.12.2009	31.12.2008
	Note	LVL	LVL	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like items		25 819	34 824	36 737	49 550
Company's intangible value		-	-	-	-
Advance payments for intangible investments		-	-	-	-
<b>TOTAL</b>	<b>12</b>	<b>25 819</b>	<b>34 824</b>	<b>36 737</b>	<b>49 550</b>
<b>Fixed assets</b>					
Land, premises and buildings		2 883 155	2 956 961	4 102 360	4 207 376
Biological assets		553 296	600 488	787 269	854 417
Equipment and machinery		1 116 631	1 441 205	1 588 823	2 050 650
Other fixed assets		15 227	24 327	21 666	34 614
Unfinished constructions		635 342	84 954	904 010	120 879
Advance payments for fixed assets		29 728	-	42 299	-
<b>TOTAL</b>	<b>13</b>	<b>5 233 379</b>	<b>5 107 935</b>	<b>7 446 427</b>	<b>7 267 937</b>
<b>Long-term financial investments</b>					
Participation in the capital of related companies		524 308	346 108	746 023	492 467
Loans to the related companies		756 300	692 836	1 076 118	985 817
<b>TOTAL</b>	<b>14</b>	<b>1 280 608</b>	<b>1 038 944</b>	<b>1 822 141</b>	<b>1 478 284</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>6 539 806</b>	<b>6 181 703</b>	<b>9 305 306</b>	<b>8 795 771</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		8 053	9 419	11 458	13 402
Biological assets		298 760	328 859	425 097	467 924
Unfinished production		1 300 105	971 483	1 849 883	1 382 296
Finished production and goods for sale		202 653	453 814	288 349	645 719
Advance payments for goods		1 422 160	966 602	2 023 551	1 375 351
<b>TOATL</b>	<b>15</b>	<b>3 231 731</b>	<b>2 730 177</b>	<b>4 598 339</b>	<b>3 884 692</b>
<b>Debtors</b>					
Debts of buyers and customers	16	651 791	760 292	927 415	1 081 798
Debts of subsidiaries		42 524	30 025	60 506	42 722
Other debtors	17	14 875	37 535	21 165	53 407
Accrued income		-	30 205	-	42 978
Expenditures of the next periods	18	8 257	9 550	11 749	13 588
<b>TOTAL</b>		<b>717 447</b>	<b>867 607</b>	<b>1 020 835</b>	<b>1 234 494</b>
<b>Money and its equivalents</b>					
		17 598	478 208	25 040	680 429
<b>TOTAL CURRENT ASSETS</b>		<b>3 966 776</b>	<b>4 075 992</b>	<b>5 644 214</b>	<b>5 799 614</b>
<b>TOTAL ASSETS</b>		<b>10 506 582</b>	<b>10 257 695</b>	<b>14 949 519</b>	<b>14 595 385</b>

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Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

## Balance sheet (continuation)

		31.12.2009	31.12.2008.	31.12.2009	31.12.2008.
	Note	LVL	LVL	EUR	EUR
<b>OWN CAPITAL</b>					
Share capital (equity)	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 revaluation of long-term investments		802 492	800 242	1 141 843	1 138 642
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained profit from the previous year		(62 674)	-	(89 177)	-
Retained profit (loss) of the year of account		15 988	(62 674)	22 749	(89 177)
<b>TOTAL</b>		<b>3 768 014</b>	<b>3 749 776</b>	<b>5 361 401</b>	<b>5 335 451</b>
<b>TOTAL OWN CAPITAL</b>		<b>3 768 014</b>	<b>3 749 776</b>	<b>5 361 401</b>	<b>5 335 451</b>
<b>CREDITORS</b>					
<b>Long-term creditors</b>					
Deferred company's income tax	11	143 340	186 543	203 954	265 427
Long-term loans from credit institutions	21	1 454 422	1 658 057	2 069 456	2 359 203
Long-term part of financial lease liabilities	22	222 251	421 925	316 235	600 345
Other creditors		1 388 038	1 388 038	1 975 000	1 975 000
Long-term part of incomes from next periods	26	65 888	82 129	93 750	116 859
<b>TOTAL</b>		<b>3 273 939</b>	<b>3 736 692</b>	<b>4 658 396</b>	<b>5 316 834</b>
<b>Short-term creditors</b>					
Short-term loans from credit institutions	21	1 734 560	1 954 435	2 468 057	2 780 910
Short-term part of financial lease	22	180 763	236 319	257 203	336 252
Advance payments received from buyers		135	10 108	192	14 382
Debts to suppliers and contractors		1 309 717	436 451	1 863 559	621 014
Accrued liabilities	25	75 561	48 022	107 514	68 329
Taxes payable	23	89 285	37 957	127 041	54 008
Other creditors	24	58 367	31 694	83 049	45 096
Incomes from the next periods short-term part	26	16241	16241	23 109	23 109
Unpaid dividends from the previous years				-	-
<b>TOTAL</b>		<b>3 464 629</b>	<b>2 771 227</b>	<b>4 929 723</b>	<b>3 943 101</b>
<b>TOTAL CREDITORS</b>		<b>6 738 568</b>	<b>6 507 919</b>	<b>9 588 118</b>	<b>9 259 934</b>
<b>TOTAL LIABILITIES</b>		<b>10 506 582</b>	<b>10 257 695</b>	<b>14 949 519</b>	<b>14 595 385</b>

The annex on pages 11-30 is an integral part of this financial statement

Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

**Cash flow statement**

<b>I. Cash flow from basic activity</b>	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
	LVL	LVL	EUR	EUR
<b>1. Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>20 014</b>	<b>(109 979)</b>	<b>28 477</b>	<b>(156 486)</b>
a) wear and tear of fixed assets and intangible investments (+)	543 073	635 406	772 723	904 101
b) elimination of fixed assets and intangible investments	44 942	155 201	63 947	220 831
c) formation of accruals (except for the accruals for insecure debts)	27 539	13 118	39 184	18 665
d) profit (-) or loss (+) from fluctuations of exchange rate	10 035	(9 153)	14 279	(13 024)
e) income from the acknowledgement of financing	(16 241)	(16 241)	(23 109)	(23 109)
f) other interest income and the like income	-	(20)	-	(28)
h) interest payments and the like expenditures	206 753	236 462	294 183	336 455
<b>2. Profit or loss before the corrections of the impact of balance</b>	<b>836 115</b>	<b>904 794</b>	<b>1 189 684</b>	<b>1 287 406</b>
a) increase (+) or decrease (-) of debtors debt	150 160	98 857	213 658	140 661
b) increase (+) or decrease (-) of the reserves of accruals	(501 554)	(1 376 196)	(713 647)	(1 958 150)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	892 561	52 334	1 270 000	74 465
<b>3. Gross cash flow from basic activity</b>	<b>1 377 282</b>	<b>(320 211)</b>	<b>1 959 696</b>	<b>(455 619)</b>
4. Expenditures to pay interest payments	(206 753)	(236 462)	(294 183)	(336 455)
5. Expenditures to pay company's income tax and immovable property tax	(4 026)	47 305	(5 728)	67 309
<b>6. Cash flow before extraordinary items</b>	<b>1 166 503</b>	<b>(509 368)</b>	<b>1 659 784</b>	<b>(724 765)</b>
7. Cash flow from extraordinary items				
<b>8. Net cash flow from basic activity</b>	<b>1 166 503</b>	<b>(509 368)</b>	<b>1 659 784</b>	<b>(724 765)</b>
<b>II. Cash flow from investments</b>				
1. Purchase or dispossession of shares of subsidiary or associate companies	-	(1)	-	(1)
2. Loans given	(241 664)	(1 192)	(343 857)	(1 696)
3. Acquisition of fixed assets and intangible investments	(126 593)	(398 686)	(180 126)	(567 279)
4. Expenditures for advance payments for fixed assets and unfinished constructions	(580 116)	(39 253)	(825 431)	(55 852)
5. Income from selling fixed assets and intangible investments	-	-	-	-
6. Interest received	-	20	-	28
<b>6. Net cash flow from investments</b>	<b>(948 373)</b>	<b>(439 112)</b>	<b>(1 349 413)</b>	<b>(624 800)</b>
<b>III. Cash flow from financing activities</b>				
1. Loans received	-	3 015 262	-	4 290 331
2. EU financing received	-	-	-	-
3. Received investments in capital	-	-	-	-
4. Expenditures for paying back loans	(678 740)	(932 999)	(965 760)	(1 327 538)
5. Expenditures for redemption of asset that was hired	-	(668 194)	-	(950 754)
6. Paid out dividends	-	-	-	-
<b>6. Net cash flow from financing activities</b>	<b>(678 740)</b>	<b>1 414 069</b>	<b>(965 760)</b>	<b>2 012 039</b>
<b>IV. The result of the exchange rate fluctuations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>(460 610)</b>	<b>465 589</b>	<b>(655 389)</b>	<b>662 473</b>
VI. Money and its equivalents balance at the beginning of the year of	478 208	12 619	680 429	17 955
VII. Money and its equivalents balance at the end of the year of account	17 598	478 208	25 040	680 429

The annex on pages 11-30 is an integral part of this financial statement

Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board



## Statement on the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from revaluation of long-term investments	Retained profit/loss of the year of account	Toatal own capital
	LVL	LVL	LVL	LVL	LVL	LVL
<b>December 31, 2007</b>	<b>387 136</b>	<b>1 987</b>	<b>2 213 959</b>	<b>-</b>	<b>409 126</b>	<b>3 012 208</b>
Distribution of profit of the year 2007	-	-	409 126		(409 126)	-
Revaluation reserves	-	-		800 242	-	800 242
Paid out dividends	-	-				-
Profit of the year of account,adjusted	-	-			(62 674)	(62 674)
<b>December 31, 2008</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>800 242</b>	<b>(62 674)</b>	<b>3 749 776</b>
Revaluation reserves	-	-	-	2 250	-	2 250
Distribution of the year 2008 profit	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-
Profit of the year of account	-	-	-		15 988	15 988
<b>December 31, 2009</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(46 686)</b>	<b>3 768 014</b>

	Share capital	Share premium	Other reserves	Retained profit/loss of the previous year	Retained profit/loss of the year of account	Toatal own capital
	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2007</b>	<b>550 845</b>	<b>2 827</b>	<b>3 150 180</b>	<b>-</b>	<b>582 134</b>	<b>4 285 986</b>
Distribution of profit of the year 2007	-	-	-	-	-	-
Paid out dividends	-	-	582 134	-	(582 134)	-
Profit of the year of account,adjusted	-	-	-	-	(89 177)	(89 177)
<b>December 31, 2008</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 138 642</b>	<b>(89 177)</b>	<b>5 335 451</b>
Revaluation reserves	-	-	-	3 201	-	3 201
Distribution of the year 2008 profit	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	22 749	22 749
<b>December 31, 2009</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(66 428)</b>	<b>5 361 401</b>

Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
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 result, from 2009 the joint-stock company “Saldus mežrūpniecība” prepare consolidated annual report., herein after Holding company.

### **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.

#### ***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.

	31.12.2008.	31.12.2008..
RUB/ LVL	0.0164	0.0171
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	
	2009	2008	2009	2008	2009	2008	2009	2008
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	5 026 631	6 882 488	4 052 320	2 272 647	94 259	308 536	9 173 210	9 463 671
Production costs of sold products	(4 075 513)	(6 486 468)	(3 630 152)	(2 322 731)	(354 115)	(288 441)	(8 059 780)	(9 097 640)
Selling costs	(806 240)	-	(29 623)	(44 262)	(134)	(36 873)	(835 997)	(81 135)
General administration costs	(20 944)	(129 415)	(1 928)	(63 705)	(135 657)	(92 500)	(158 529)	(285 620)
Other incomes/expenditures from economic activity	42 546	115 576	44 035	-	21 282	11 611	107 863	127 187
<b>Segment profit</b>	<b>166 480</b>	<b>382 181</b>	<b>434 652</b>	<b>(158 051)</b>	<b>(374 365)</b>	<b>(97 667)</b>	<b>226 767</b>	<b>126 463</b>
Financial expenditures, net	(75 549)	(166 679)	(3 355)	(59 081)	(127 849)	(10 682)	(206 753)	(236 442)
Company income tax (undistributable)					8 119	57 971	8 119	57 971
Other taxes	(611)	(8 187)	(3 102)	(1 954)	(8 432)	(525)	(12 145)	(10 666)
<b>Net result</b>	<b>90 320</b>	<b>207 315</b>	<b>428 195</b>	<b>(219 086)</b>	<b>(502 527)</b>	<b>(50 903)</b>	<b>15 988</b>	<b>(62 674)</b>
Segment assets	5 629 728	5 529 562	2 237 383	2 102 372	2 639 471	2 625 761	10 506 582	10 257 695
Segment liabilities	4 585 397	4 478 376	1 688 779	1 576 779	4 232 406	4 202 540	10 506 582	10 257 695

	logging		timber processing		Other		Total	
	2 009	2 008	2 009	2 008	2 009	2 008	2 009	2 008
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	7 152 252	9 792 898	5 765 932	3 233 685	134 118	439 007	13 052 302	13 465 591
Production costs of sold products	(5 798 933)	(9 229 412)	(5 165 241)	(3 304 948)	(503 860)	(410 415)	(11 468 034)	(12 944 775)
Selling costs	(1 147 176)	-	(42 150)	(62 979)	(191)	(52 466)	(1 189 517)	(115 445)
General administration costs	(29 801)	(184 141)	(2 743)	(90 644)	(193 023)	(131 616)	(225 566)	(406 401)
Other incomes/expenditures from economic activity	60 538	164 450	62 656	-	30 282	16 521	153 475	180 971
<b>Segment profit</b>	<b>236 880</b>	<b>543 795</b>	<b>618 454</b>	<b>(224 886)</b>	<b>(532 673)</b>	<b>(138 968)</b>	<b>322 660</b>	<b>179 941</b>
Financial expenditures, net	(107 497)	(237 163)	(4 774)	(84 065)	(181 913)	(15 199)	(294 183)	(336 427)
Company income tax	-	-	-	-	11 552	82 485	11 552	82 485
Other taxes	(869)	(11 649)	(4 414)	(2 780)	(11 998)	(747)	(17 281)	(15 176)
<b>Net result</b>	<b>128 514</b>	<b>294 983</b>	<b>609 267</b>	<b>(311 731)</b>	<b>(715 032)</b>	<b>(72 428)</b>	<b>22 749</b>	<b>(89 177)</b>
Segment assets	8 010 381	7 867 858	3 183 509	2 991 406	3 755 629	3 736 121	14 949 519	14 595 385
Segment liabilities	6 524 432	6 372 155	2 402 916	2 243 554	6 022 171	5 979 676	14 949 519	14 595 385

**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.

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Income from sales, int. Al.	8 819 924	9 266 208	12 549 621	13 184 626
Latvia	8 819 058	9 036 635	12 548 389	12 857 973
the EU countries	866	150 526	1 232	214 179
Other countries	0	79 047	0	112 474
Income from rendering of services, int. Al.	353 286	197 463	502 681	280 965
Latvia	353 286	174 062	502 681	247 668
the EU countries	0	23 401	0	33 297
	<b>9 173 210</b>	<b>9 463 671</b>	<b>13 052 302</b>	<b>13 465 591</b>

**5. Production costs of sold products**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Actual cost of sold products				
Wages	871 433	960 074	1 239 937	1 366 062
Wear and tear of capital assets	543 073	608 405	772 723	865 682
Purchasing costs of raw materials	3 541 147	2 330 534	5 038 598	3 316 051
Stem taxes	1 616 642	3 378 681	2 300 274	4 807 430
Electricity costs	126 423	83 800	179 884	119 237
Security, heating	7 361	24 445	10 474	34 782
Services received from outside	1 221 884	1 646 128	1 738 584	2 342 229
Other costs	131 817	65 573	187 559	93 302
	<b>8 059 780</b>	<b>9 097 640</b>	<b>11 468 034</b>	<b>12 944 775</b>



## 6. Selling costs

	2009	2008	2009	0.702804
	LVL	LVL	EUR	2008
				EUR
Wages		17863	0	25417
Wear and tear of capital assets		402	0	572
Purchasing costs of raw materials		1563	0	2224
Purchasing costs of goods		60221	0	85687
Communication costs		228	0	324
Shop costs		343	0	488
Reklāmas un mārketinga izdevumi	13403		19071	0
Goods transportation costs	809484	515	1151792	733
Other costs	13 110	0	18654	0
	<b>835 997</b>	<b>81 135</b>	<b>1 189 517</b>	<b>115 445</b>

## 7. General and administration costs

	2009	2008	2009	2008
	LVL	LVL	EUR	EUR
Administration costs				
Wages	100 053	158 223	142 363	225 131
Wear and tear of capitl assets		26 600	0	37 848
Communication costs	8 092	8 959	11 514	12 748
Office upkeep costs	6 866	27 364	9 769	38 935
Annual report costs	2 200	6 635	3 130	9 441
Banking services	13 666	5 665	19 445	8 061
Insurance costs		12 657	0	18 009
Legal services	609	7 814	867	11 118
Travelling allowance		4 318	0	6 144
Maintenance of the capital assets of administration	27 043	27 385	38 479	38 965
	<b>158 529</b>	<b>285 620</b>	<b>225 566</b>	<b>406 401</b>

## 8. Other income from economic activity

	2009	2008	2009	2008
	LVL	LVL	EUR	EUR
Other income				
Income from excluding of long-term investments	101 042	184 201	143 770	262 094
Income from the fluctuations of exchange rate	101 208		144 006	0
Other income	55 887	4 094	79 520	5 825
Income of the next periods	16 241	16 241	23 109	23 109
	<b>274 378</b>	<b>204 536</b>	<b>390 405</b>	<b>291 029</b>

**8. Other costs of economic activity**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Other expenditure				
Zaudējumi no ilgterm.ieguldījumu izslēgšanas	66 467		94 574	0
Expenditure due to exchange rate fluctuations		26 559	0	37 790
Donations		3 874	0	5 512
Accruals for insecure debtors		30 205	0	42 978
Other expenditure	100 048	4 026	142 355	5 728
Payments into private pension funds		8 862	0	12 609
Penalties		3 823	0	5 440
	<b>166 515</b>	<b>77 349</b>	<b>236 929</b>	<b>110 058</b>

**9. Staff costs**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Average number of employees	106	144		
<b>Staff costs in total</b>				
Wages	491 473	913 755	699 303	1 300 156
Social security tax	187 682	222 405	267 047	316 454
	<b>679 155</b>	<b>1 136 160</b>	<b>966 351</b>	<b>1 616 610</b>
Int. Al.				
Wages of production workers				
Wages	410 791	786 418	584 503	1 118 972
Social security tax	168 312	191 519	239 486	272 507
	<b>579 103</b>	<b>977 937</b>	<b>823 989</b>	<b>1 391 479</b>
Administration wages				
Wages	80 682	127 337	114 800	181 184
Social security tax	19 370	30 886	27 561	43 947
	<b>100 052</b>	<b>158 223</b>	<b>142 361</b>	<b>225 131</b>
Int. Al. For management				
Wages	16 151	63 433	22 981	90 257
Social security tax	1 454	15 282	2 069	21 744
	<b>17 605</b>	<b>78 715</b>	<b>25 050</b>	<b>112 001</b>

**10. Financial income/ (expenditure), net**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Ieņēmumi no valūtas konvertācijas	1571			
Other income	754		1 073	
Received % from the balance of account	19	20	27	28
	<b>2 344</b>	<b>20</b>	<b>1 100</b>	<b>28</b>
Other expenditure	27348			
Paid % for loans	165 132	184 383	234 962	262 353
Paid % for financial lease	16 617	52 079	23 644	74 102
	<b>209 097</b>	<b>236 462</b>	<b>258 606</b>	<b>336 455</b>

## 11. Company income tax

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Company income tax for the year of account	36 784	0	52 339	0
	<b>36 784</b>	<b>0</b>	<b>52 339</b>	<b>0</b>
Deferred company income tax	43 203	57 971	61 472	82 485
	<b>43 203</b>	<b>57 971</b>	<b>61 472</b>	<b>82 485</b>

### Deferred company income tax:

	2009 LVL	2008 LVL	2009 EUR	2008 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)	2 938 386	3 389 011	4 180 947	4 822 128
Residual value of capital assets needed for taxes	1 847 310	2 051 955	2 628 485	2 919 669
Provisions for bad debts	59 919	45 415		
Accruals for vacations	75 561	48 022	107 514	68 329
Temporary difference	955 597	1 243 619	1 359 692	1 769 510
<b>Liabilities of deferred tax</b>	<b>143 340</b>	<b>186 543</b>	<b>203 954</b>	<b>265 427</b>
<b>Assets of deferred tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**12. Intangible investments**

	Software	Intangible value	Advance payments for intangible investments	Total
	LVL	LVL	LVL	LVL
Initial value 31.12.2008.	54 008	-	-	54 008
Purchase	-	-	-	-
2009 Decrease of value	-	-	-	-
Initial value 31.12.2009.	54 008	-	-	54 008
Accured depreciation 31.12.2008.	19 184			19 184
Depreciation	9 005			9 005
2009 Decrease of value	-			-
Accured depreciation 31.12.2009.	28 189	-	-	28 189
<b>Residual value 31.12.2008.</b>	<b>34 824</b>	-	-	<b>34 824</b>
<b>Residual value 31.12.2009</b>	<b>25 819</b>	-	-	<b>25 819</b>
Depreciation rate (by the linear method)	5 years			

	Software	Intangible value	Advance payments for intangible investments	Total
	EUR	EUR	EUR	EUR
Initial value 31.12.2008.	76 846	-	-	76 846
Purchase	-	-	-	-
2009 Decrease of value	-	-	-	-
Initial value 31.12.2009.	76 846	-	-	76 846
Accured depreciation 31.12.2008.	27 296	-	-	27 296
Depreciation	12 813	-	-	12 813
2009 Decrease of value	-	-	-	-
Accured depreciation 31.12.2009.	40 109	-	-	40 109
<b>Residual value 31.12.2008.</b>	<b>49 550</b>	-	-	<b>49 550</b>
<b>Residual value 31.12.2009</b>	<b>36 737</b>	-	-	<b>36 737</b>

**13. 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 31.12.2008	3 401 447	600 488	2 508 754	80 863	84 954	6 676 506
2009 Purchase	44 047	49	82 931	467	550 388	677 882
Liquidity	(858)			(475)		(1 333)
Reconstruction*		(47 241)				(47 241)
Reshuffle			18 095	(18 095)		-
Accounting value 31.12.2009	3 444 636	553 296	2 609 780	62 760	635 342	7 305 814
Accrued wear and tear 31.12.2008.	444 486		1 067 548	56 536		1 568 570
2009 Wear and tear	116 995		409 644	7 429		534 068
Wear and tear of liquid assets				(475)		(475)
Reshuffles			15 957	(15 957)		-
Accrued wear and tear 31.12.2009	561 481		1 493 149	47 533	-	2 102 163
<b>Residual value 31.12.2008.</b>	<b>2 956 961</b>		<b>1 441 206</b>	<b>24 327</b>	<b>84 954</b>	<b>5 107 936</b>
<b>Residual value 31.12.2009</b>	<b>2 883 155</b>	<b>553 296</b>	<b>1 116 630</b>	<b>15 227</b>	<b>635 342</b>	<b>5 203 650</b>

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	EUR
Accounting value 31.12.2008	4 839 823		3 569 635	115 058	120 878	8 645 394
2009 Purchase	62 673	70	118 000	664	783 133	964 540
Liquidity	(1 221)		-	(676)	-	(1 897)
Reconstruction*	-		-	-	-	-
Put into operation	-		25 747	(25 747)	-	-
Accounting value 31.12.2009	4 901 275	70	3 713 382	89 299	904 011	9 608 038
Accrued wear and tear 31.12.2008.	632 447		1 518 984	80 443	-	2 231 873
2009 Wear and tear	166 469		582 871	10 571	-	759 910
Wear and tear of liquid assets	-		-	(676)	-	(674)
Reshuffles	-		22 705	(22 705)	-	-
Accrued wear and tear 31.12.2009	798 915		2 124 560	67 633	-	2 991 109
<b>Residual value 31.12.2008.</b>	<b>4 207 376</b>	<b>-</b>	<b>2 050 651</b>	<b>34 614</b>	<b>120 878</b>	<b>6 413 521</b>
<b>Residual value 31.12.2009</b>	<b>4 102 360</b>	<b>70</b>	<b>1 588 823</b>	<b>21 666</b>	<b>904 011</b>	<b>6 616 927</b>

Rate of wear and tear (linear method)      5-20 years      5-10 years      5 years

#### 14. Unfinished construction and advance payments for capital assets

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Revaluated real estate in year 2008		797 391		1 134 585
<i>*reconstruction in total:</i>		797 391		1 134 585
Small logs sawline monting	522 273		743 128	0
Construction of a fence for repair shop	35 528	8 016	50 552	11 406
Saw log sorting scanner and frame	40 609	40 583	57 781	57 744
Sieve and field of chip crusher construction	36 932	36 355	52 550	51 729
<i>in total unfinished construction objects:</i>	635 342	84 954	904 010	120 879

#### 14. Long-term financial investments

The following table shows the Company's participation in the share capital of subsidiaries:

	Share part (%)		Legal address
	31.12.2009	31.12.2008	
<u>Subsidiary</u>			
SIA „Pakuļu sporta bāze”	100	100	Mežvidi, Novadnieku pag., Saldus raj., Latvija
ООО «Салдус»	100	100	Zonālnoje sosse 44a, Pleskava, Krievija
ООО «Деревообрабатывающий комбинат № 3»	100	99.997	Zonālnoje sosse 44a, Pleskava, Krievija

Investments in the share capital of subsidiaries are as follows:

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
SIA Pakuļu sporta bāze	146 000	146 000	207 739	207 739
ООО «Салдус»	5 190	5 200	7 385	7 399
ООО «Деревообрабатывающий комбинат № 3»	373 118	194 908	530 899	277 329
<i>total long-term financial investments</i>	524 308	346 108	746 023	492 467
SIA Pakuļu sporta bāze	99 899	86 475	142 143	123 043
ООО «Салдус»	3 616			
ООО «Деревообрабатывающий комбинат № 3»	652 785	606 361	928 829	862 774
<i>total debts to the subsidiaries</i>	756 300	692 836	1 070 973	985 817

**15. Reserves**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Materials, spare parts, inventory	8 053	9 419	11 458	13 402
Biological assets	298 760	328 858		
Round timber in forests	521 859	414 273	742 538	589 457
Round timber at rads and in workshops	561 353	433 478	798 733	616 784
Sawn timber	216 893	123 732	308 611	176 055
<i>in total unfinished construction</i>	<i>1 300 105</i>	<i>971 483</i>	<i>1 849 883</i>	<i>1 382 296</i>
Finished production	202 653	453 814	288 349	645 719
Advance payments for goods	1 422 160	966 602	2 023 551	1 375 351

In the Holding on 31.12.2009 was carried out inventory and non-marketable stocks were not established.

**16. Debts of buyers and customers**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
For transport services	23 272	39 853	33 113	56 706
For the lease of immovables and equipment	20 822	13 115	29 627	18 661
For timber	667 616	752 739	949 932	1 071 051
<i>debtors debts in total</i>	<i>711 710</i>	<i>805 707</i>	<i>1 012 672</i>	<i>1 146 418</i>
accruals for doubtful debtors	59 919	45 415	85 257	64 620

Residuals of debtors debts in the balance sheet are shown in their net value. In 2009, there were written off reserves for insecure debts for the amount of 14503 Ls (20636 EUR), against which there is being carried out or shall be carried the act of bankruptcy or liquidation.

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).

**17. Other debtors**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Surplus company income tax payment	0	0		
Surplus VAT payment	9 641	13 297	13 718	18 920
VAT paid in advance on boarder	470	470	669	669
Surplus URN payment	32	222	46	316
Other debtors	4 732	3 106	6 733	4 419
Advance payment to the uzņēmuma ienākuma nodoklis		20 440	0	29 083
<i>In total other debtors</i>	<i>14 875</i>	<i>37 535</i>	<i>21 165</i>	<i>53 407</i>

**18. Expenditures of the next periods**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Insurance	6 234	7 210	8 870	10 259
Licence fees	551	637	784	906
Other	1472	1703		
<i>In total expenditure of the next periods</i>	<i>8 257</i>	<i>9 550</i>	<i>9 654</i>	<i>11 165</i>

**19. Money and its equivalents**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Money in accounts	16 536	477 504	23 529	679 427
Money in cash	1 021	704	1 453	1 002
Nauda ceļā	41		58	
<i>In total other debtors</i>	<i>17 598</i>	<i>478 208</i>	<i>25 040</i>	<i>680 429</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:

	%	2009 LVL	2009 EUR
<b>Shares of closed issue</b>			
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	
<b>Shares of public offering *</b>			
	28	108 500	154 382
<b>Total:</b>	<b>100</b>	<b>387 136</b>	<b>462 748</b>
	31.12.2008	387136	550 845
	09.01.1900	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 2009- 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.



	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Profit of the period of account	15 988	-62 674	22 749	-89 177
Number of shares 31.12.2009	387 136	387 136	550 845	550 845
<b>Basic profit per share per year</b>	<b>0.04</b>	<b>-0.16</b>	<b>0.06</b>	<b>-0.23</b>

## 21. Loans from credit institutions

	% rate in force	Atmaksas termiņš	2008 LVL	2008 LVL	2008 EUR	2008 EUR
Long-term:						
A/s Swedbanka	6 mon.Euribor + 1.5%	1 year or more		3 969	0	5 647
A/s Swedbanka	3 mon.Euribor + 0.9-1.2%	1 year or more	536 334	632 790	763 135	900 379
A/s Nordea banka	3 mon.Euribor + 2%	1 year or more	918 088	1 021 298	1 306 322	1 453 176
			1 454 422	1 658 057	2 069 456	2 359 203
Short-term:						
A/s Swedbanka creditline	3 mon.Euribor + 5%	up to 12 mon.	1 520 062	1 627 223	2 162 853	2 315 330
A/s Nordea banka	3 mon.Euribor + 2%	up to 12 mon.	114 074	130 370	162 313	185 500
A/s Swedbanka	6 mon.Euribor + 1.5%	up to 12 mon.	3 969	47 794	5 647	68 005
A/s Swedbanka	3 mon.Euribor + 0.9-1.2%	up to 12 mon.	96 455	149 048	137 243	212 076
			1 734 560	1 954 435	2 468 057	2 780 910
			3 188 982	3 612 492	4 537 513	5 140 112

## 22. Liabilities of financial lease and other loans

	% rate in force	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Long-term:					
SIA Hanza līzings	3 mon. Euribor+0.8-1.2%	204 568	393 990	291 074	560 597
SIA Nordea līzings	Fiksēta likme 5%	17 683	27 935	25 161	39 748
		222 251	421 925	316 235	600 345
Short-term:					
SIA Hanza līzings	3 mon. Euribor+0.8-1.2%	170 511	208 638	242 615	296 865
SIA Nordea līzings	Fiksēta likme 5%	10 252	27 681	14 587	39 387
		180 763	236 319	257 203	336 252

**23. Taxes payable**

	31.12.2008	Paid in 2009	Calculated in 2009	31.12.2009
	LVL	LVL	LVL	LVL
Company Income Tax	(20 440)	13 450	81 319	47 429
VAT	(13 927)	231 700	235 986	(9 641)
VAT on the boarder	(470)	3 158 838	3 158 838	(470)
Peoples Income Tax	22 595	138 192	131 301	15 704
Compulsory Payments of Social Insurance Tax	15 353	240 884	251 662	26 131
Natural Resources Tax	-	-	-	-
Property Tax	9	11 586	10 667	(910)
URN	(222)	13 275	13 515	18
	EUR	EUR	EUR	EUR
Company Income Tax	(29 083)	19 138	115 707	67 485
VAT	(19 816)	329 679	335 778	(13 718)
VAT on the boarder	(669)	4 494 622	4 494 622	(669)
Peoples Income Tax	32 150	196 630	186 824	22 345
Compulsory Payments of Social Insurance Tax	21 845	342 747	358 083	37 181
Natural Resources Tax	-	-	-	-
Property Tax	13	16 485	15 178	(1 295)
URN	(316)	18 889	19 230	26

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.

**24. Other liabilities**

	2009	2008	2009	2008
	LVL	LVL	EUR	EUR
Wages	55 659	28 813	79 196	40 997
Payments in private pension funds	2 138	2 138	3 042	3 042
Other	570	743	811	1 057
	58 367	31 694	83 049	45 096

**25. Accrued liabilities**

	2009	2008	2009	2008
	LVL	LVL	EUR	EUR
Accrued for holidays	75 561	48 022	107 514	68 329
	75 561	48 022	107 514	68 329

**26. Incomes from the next periods**

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Long-term:				
Project No. 124000041	45 946	57 199	65 375	81 387
Project No.04/415034/0002/023	19 942	24 930	28 375	35 472
	65 888	82 129	93 750	116 859
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

**27. 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.

**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, 2009 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

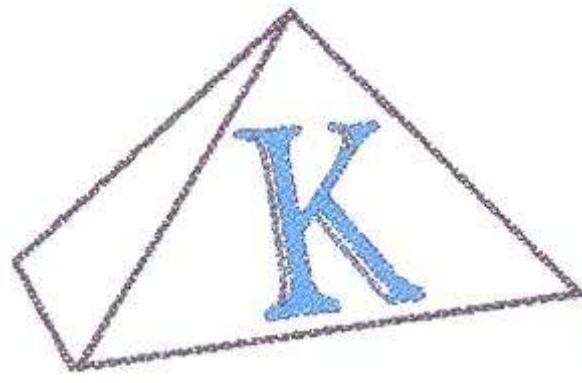
Except from what was said in the management statement in the period from the last day of the year of account until the date of signing this financial statement there have not occurred any events due to which there should have been done any amendments or corrections in this financial statement.

## 30. Transactions with associated persons

type of	Income from	Income from	Payments to	Payments to	Debts of	Debts of	Credits to	Credits to
Subsidiary	subsidiaries	subsidiaries	subsidiaries	subsidiaries	subsidiaries	subsidiaries	subsidiaries	subsidiaries

transaction		LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
OOO Saldus debt and sales of ready production	2008				0	119 825	170 496		
	2009			3 616	5 145	107 247	152 599		
OOO Saldus Ļes debt and sales of ready production	2008	30 327	43 151	89 365	127 155	636 190	905 217		
	2009		0	39 973	56 876	693 961	987 418		
SIA Pakuļu sporta bāze debt and sales of ready production	2008	3 875	5 514	32 475	46 208	86 475	123 043		
	2009	9 633	13 707	13 424	19 101	99 899	142 143		
SIA SEZ Laskana debt, dividends and sales of ready production	2008	280 613	399 276	0	0	0	0		
	2009		0	0	0	0	0		
SIA Saldus MRU debt, dividends and sales of ready production	2008	253 372	360 516	0	0	1 686	2 399	77 028	109 601
	2009	25 252	35 930	0	0	21 850	31 090	26 076	37 103
	2008	568 187	808 457	121 840	173 363	844 176	1 201 154	77 028	109 601
	2009	34 885	49 637	57 013	81 122	922 957	1 313 249	26 076	37 103





**SIA "KONSULTS"**

LZRA licence Nr.39

Cēsis LV 4100 Rīgas iela 4

Reģ.Nr. LV 44103010249

## **INDEPENDENT AUDITORS' REPORT**

**To the Shareholders of SALDUS MEŽRŪPNIECĪBA JSC**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of SALDUS MEŽRŪPNIECĪBA JSC which comprise the balance sheet as of 31 December 2009 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 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 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 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.

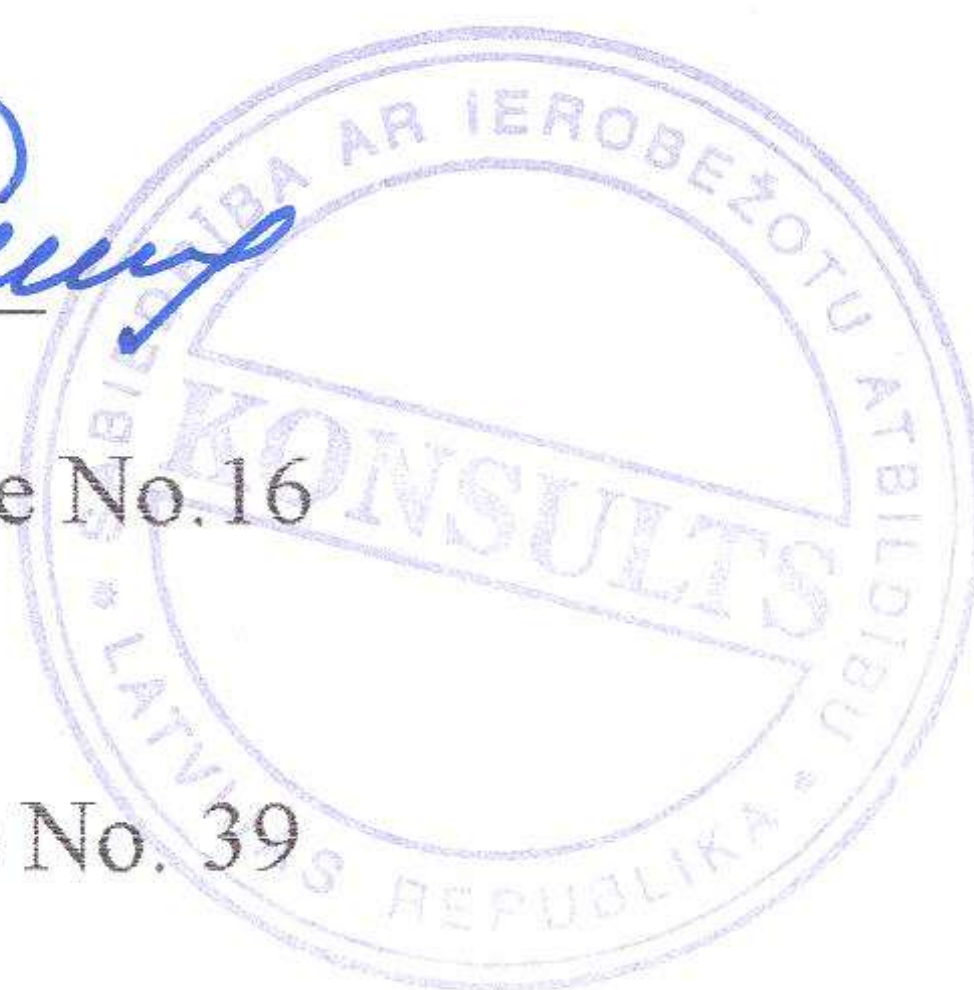
#### *Opinion*

*In our opinion, the financial statement presents fairly, in all material respects the financial position of the SALDUS MEŽRŪPNIECĪBA JSC as of December 31, 2009, and of the results of its financial performance and cash flows for the year 2009 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 2009 and have not disclosed any material discrepancies between the financial information presented in the management report and the financial statement for the year 2009.

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



Cesis  
30.04.2010.