

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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF THE YEAR 2009

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2009

Council of joint-stock "Saldus mežrūpniecība"

Chairman of the council:

Uldis Mierkalns

Vice-chairman of the council:

Lolita Burkovska

Members of the council:

Vēsminš Gunvaldis

Lauris Leja

Jānis Leimanis

Board of joint-stock company “Saldus mežrūpniecība”

Director of the board:

Jānis Bertrāns

Members of the board:

Ivars Feikners

Gundars Maurs

Jānis Mierkalns

Consolidated profit - loss calculation

	31.03.2009	31.03.2008	31.03.2009	31.03.2008
Note	LVL	LVL	EUR	EUR
Net turnover	2 217 527	2 416 602	3 155 257	3 438 515
Production costs of sold products	(2 144 980)	(2 236 685)	(3 052 032)	(3 182 516)
Gross profit	72 547	179 917	103 225	255 999
Selling costs	(26 816)	(19 858)	(38 156)	(28 255)
General and administration costs	(57 461)	(108 294)	(81 760)	(154 088)
Other income from economic activity	9 284	79 842	13 210	113 605
Other expenses from economic activity	(1 958)	(36 255)	(2 786)	(51 586)
Profit or loss from economic activity	(4 404)	95 352	(6 266)	135 674
Net profit from participation in the capital of subsidiary and associated companies				
Other interest income and the like income	(42 471)	10	(60 431)	14
Other interest payments and the like costs	(65 911)	(65 428)	(93 783)	(93 096)
Profit or loss before extraordinary items and taxes	(112 786)	29 934	(160 480)	42 592
Extraordinary incomes				
Extraordinary costs				
Profit or loss before taxes	(112 786)	29 934	(160 480)	42 592
Company's income tax		(23 165)	-	(32 961)
Deffered company's income tax		1 643	-	2 338
Other taxes	(5 464)	(11 070)	(7 775)	(15 751)
Profit or (loss),	-118 250	-2 658	-168 255	-3 782
Profit/ (loss) per share				
<i>lats per share / EUR per share</i>	<i>(0.31)</i>	<i>(0.01)</i>	<i>(0.43)</i>	<i>(0.01)</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

	31.03.2009	31.12.2008	31.03.2009	31.12.2008
Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	32 574	34 852	46 349	49 590
Intangible value of the company	132 000	132 000	187 819	187 819
Advanced payments for intangible investments	-	-	-	-
TOTAL	164 574	166 852	234 168	237 409
Fixed assets				
Land, buildings and constructions, biological assets	3 870 825	3 611 470	5 507 688	5 138 659
Equipment and mashinery	1 685 712	1 820 881	2 398 552	2 590 880
Other fixed assets	28 327	32 014	40 306	45 552
Unfinished constructions	229 864	531 872	327 067	756 786
Advance payments for fixed assets	-	-	-	-
TOTAL	5 814 728	5 996 237	8 273 613	8 531 877
Long-term financial investments				
Partnership in the capital of related companies	-	-	-	-
Loans to related companies	-	-	-	-
TOTAL	-	-	-	-
TOTAL LONG-TERM INVESTMENTS	5 979 302	6 163 089	8 507 780	8 769 286
WORKING CAPITAL				
Reserves				
Raw materials, direct materials, auxiliary materials	574 770	274 098	817 824	390 006
Unfinished production	366 850	971 483	521 981	1 382 296
Biological assets	328 858	328 858	467 923	467 923
Made production and goods for selling	627 286	583 791	892 548	830 660
Advance payments for goods	1 388 400	914 053	1 975 515	1 300 580
TOTAL	3 286 164	3 072 283	4 675 790	4 371 465
Debtors				
Debts of buyers and customers	1 128 135	785 251	1 605 191	1 117 312
Other debtors	236 198	237 388	336 079	337 773
Accured incomes	31 297	31 394	44 532	44 670
Expenses of the following periods	115 856	118 322	164 848	168 357
TOTAL	1 511 486	1 172 355	2 150 651	1 668 111
Money and its equivalents	26 874	480 773	38 238	684 078
TOTAL WORKING CAPITAL	4 824 524	4 725 411	6 864 679	6 723 654
TOTAL ASSETS	10 803 826	10 888 500	15 372 459	15 492 940

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Consolidated balance-sheet (continuation)

		31.03.2009	31.12.2008	31.03.2009	31.12.2008
	Note	LVL	LVL	EUR	EUR
OWN CAPITAL					
Share capital		387 141	387 136	550 852	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		800 242	800 242	1 138 642	1 138 642
Adjustment reserve of foreign currency		(152 083)	(120 061)	(216 395)	(170 831)
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year		(302 208)	(66 905)	(430 003)	(95 197)
Retained earnings of the year of account		(118 250)	(235 303)	(168 255)	(334 806)
TOTAL		3 239 914	3 390 181	4 609 982	4 823 793
TOTAL OWN CAPITAL		3 239 914	3 390 181	4 609 982	4 823 793
ACCURED					
Accured liabilities		48 077	48 077	68 407	68 407
Company's deferred income tax		203 566	203 566	289 648	289 648
Accured doubtful debts		57 528	57 528	81 855	81 855
TOTAL		309 171	309 171	439 911	439 911
CREDITORS					
Long-term creditors					
Long-term loans from credit institutions		1 901 013	2 115 960	2 704 898	3 010 740
Financial lease liabilities long-term part		380 194	443 482	540 967	631 018
Other creditors		1 388 050	1 388 050	1 975 017	1 975 017
Deferred incomes long-term part		82 129	82 129	116 859	116 859
TOTAL		3 751 386	4 029 621	5 337 741	5 733 634
Short-term creditors					
Short-term loans from credit institutions		1 937 602	2 085 762	2 756 959	2 967 772
Financial lease liabilities short-term part		253 891	236 319	361 254	336 252
Advanced payments received from customers		242 022	228 126	344 366	324 594
Debts to suppliers and contractors		911 279	488 560	1 296 633	695 158
Debts to associated companies		-	-	-	-
Taxes payable		80 735	45 324	114 876	64 490
Other creditors		61 585	59 195	87 628	84 227
Incomes from following periods short-term part		16 241	16 241	23 109	23 109
Unpaid dividends from previous years		-	-	-	-
TOTAL		3 503 355	3 159 527	4 984 825	4 495 602
TOTAL CREDITORS		7 254 741	7 189 148	10 322 566	10 229 236
TOTAL LIABILITIES		10 803 826	10 888 500	15 372 459	15 492 940

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Consolidated cash flow account

I. Cash flow from basic activity		31.03.2009	31.03.2008	31.03.2009	31.03.2008
		LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes		(112 785)	29 933	(160 479)	42 591
a) wear and tear of fixed assets and intangible investments (+)		141 237	201 692	200 962	286 982
b) elimination of fixed assets and intangible investments		(265)	637	(377)	906
c) formation of accruals (except the accruals for insecure debts)		-	-	-	-
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign		2 158	-	3 071	-
e) incomes from the acknowledgement of financing		-	-	-	-
f) other interest incomes and the like incomes		(3)	(10)	(4)	(14)
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		56 170	65 428	79 923	93 096
2. Profit or loss before the corrections of impact of changes of		86 512	297 680	123 095	423 560
a) increase of the remainder of debtors' debts (-) or decrease (+)		(362 917)	45 978	(516 384)	65 421
b) increase of the remainder of reserves (-) or decrease (+)		(179 399)	(99 104)	(255 262)	(141 012)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		508 490	180 494	723 516	256 820
3 Gross cash flow from basic activity		52 686	425 048	74 965	604 789
4. Expenditures to interest payers		(64 805)	(65 428)	(92 209)	(93 096)
5. Expenditures for paying company's income tax and immovable property tax		(5 464)	(32 592)	(7 775)	(46 374)
6. Cash flow before extraordinary items		(17 583)	327 028	(25 018)	465 319
7. Cash flow from extraordinary items					
Net cash flow from basic activity		(17 583)	327 028	(25 018)	465 319
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		(3 447)	(300 058)	(4 905)	(426 944)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		(1 672)	24 158	(2 379)	34 374
5. Incomes from selling fixed assets and intangible investments		1 770	-	2 518	-
6. Received interest		3	10	4	14
6. Net cash flow from investing activities		(3 346)	(275 890)	(4 761)	(392 556)
III. Cash flow from financing activities					
1. Received loans		863 118	996 719	1 228 106	1 418 203
2. Received financing from the EU		-	-	-	-
3. Received investment in capital		-	-	-	-
4. Expenditures to pay back loans		(1 237 240)	(670 125)	(1 760 434)	(953 502)
5. Expenditures for redemption of a hired fixed asset		-	(157 188)	-	(223 658)
6. Disbursed dividends		-	-	-	-
6. Net cash flow from financing activity		(374 122)	169 406	(532 328)	241 043
IV. Result of fluctuations of the exchange rate of foreign currency		(59 730)	(132)	(84 988)	(188)
V. Net cash flow of the year of account increase (+), decrease (-)		(454 781)	220 412	(647 095)	313 618
VI. Remainder of money or its equivalents at the beginning of the year of		481 655	20 925	685 333	29 774
VII. Remainder of money or its equivalents at the end of the year of		26 874	241 337	38 238	343 392

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Consolidated account of the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from reestimates on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Currency fluctuations due to recalculation of foreign	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
31.12.2007.	387 136	1 987	2 213 959	-	(32 619)	374 155	5	2 944 623
Currency fluctuations due to recalculation	5				685		(120 066)	(119 376)
Distribution of the profit of year 2007	-	-	409 126		(34 971)	(374 155)		-
Disbursed dividends	-	-						-
Reserves from reestimates on fixed assets				800 242				800 242
Profit of the year of account, corrected	-	-				(235 303)		(235 303)
31.12.2008.	387 141	1 987	2 623 085	800 242	(66 905)	(235 303)	(120 061)	3 390 186
Currency fluctuations due to recalculation							(32 022)	(32 022)
Reserves of recalculation	-	-	-					-
Distribution of the profit of year 2008	-	-	-		(235 303)	235 303		-
Reserves from reestimates on fixed assets	-	-	-					-
Profit of the year of account	-	-	-			(118 250)		(118 250)
31.03.2009.	387 141	1 987	2 623 085	800 242	(302 208)	(118 250)	(152 083)	3 239 914

	Share capital	Share premium	Other reserves	Reserves from reestimates on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Currency fluctuations due to recalculation of foreign currency	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2007.	550 845	2 827	3 150 180	-	(46 413)	532 375	7	4 189 821
Currency fluctuations due to recalculation	7	-	-		975	-		(169 857)
Distribution of the profit of year 2007	-	-	582 134		(49 759)	(532 375)		-
Disbursed dividends	-	-	-		-	-		-
Reserves from revaluation of long-term				1 138 642				1 138 642
Profit of the year of account, corrected	-	-	-		-	(334 806)		(334 806)
31.12.2008.	550 852	2 827	3 732 314	1 138 642	(95 197)	(334 806)	(170 831)	4 823 800
Currency fluctuations due to recalculation	-	-	-		-	-		(45 563)
Reserves of recalculation	-	-	-	-	-	-		-
Distribution of the profit of year 2008	-	-	-	-	(334 806)	334 806		-
Reserves from reestimates on fixed assets	-	-	-	-	-	-		-
Profit of the year of account	-	-	-	-	-	(168 255)		(168 255)
31.03.2009.	550 852	2 827	3 732 314	1 138 642	(430 003)	(168 255)	(216 395)	4 609 982

Board:

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Annex to the financial statement

1. Corporative information

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

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared annual report for the period of 3 months of year 2009 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- March 31, 2009
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- March 31, 2009
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	Zonalnoje sosse 44a, Pskov, Russia 180007
Main types of business	Purchase of timber
Owners of the company	Joint-stock company Saldus mežrūpniecība – 100 %
Year of account	January 1- March 31, 2009

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

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.

	31.03.2009.	31.12.2008.
RUB/ LVL	0.0157	0.0171
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.

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.

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.

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.

Taxes

Company's income tax

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

Deferred income tax

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

Possible liabilities and assets

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

Employee benefits

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

Connected persons

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

Events after the end of the year of account

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

2. Segments of the holding company's activity

	logging		wood processing		Other undividable		Total	
	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	1 576 010	1 885 283	600 988	462 470	40 529	68 848	2 217 527	2 416 601
Production costs of sold production	(1 550 276)	(1 646 989)	(560 754)	(522 973)	(33 950)	(66 724)	(2 144 980)	(2 236 686)
Selling costs	(12 344)	(13 079)	(5 131)	(6 779)	(9 341)		(26 816)	(19 858)
General and administration costs	(27 774)	(80 133)	(13 503)	(22 348)	(16 184)	(5 813)	(57 461)	(108 294)
Other incomes/ (expenditures)	-	561	(519)	52 980	7 845	(9 953)	7 326	43 588

from economic activity

Segment's profit	(14 384)	145 643	21 081	(36 650)	(11 101)	(13 642)	(4 404)	95 351
Incomes from participation in the company's capital							-	-
Financial costs, net	(15 365)	(29 305)	(55 208)	(2 983)	(37 809)	(33 130)	(108 382)	(65 418)
Company's income tax (undivided)		(18 909)		1 554	-	(4 167)	-	(21 522)
Other taxes	(1 537)	(2 921)	(3 011)	(3 579)	(916)	(4 570)	(5 464)	(11 070)
Net result	(31 286)	94 508	(37 138)	(41 658)	(49 826)	(55 509)	(118 250)	(2 659)
Segment's assets	5 942 104	5 999 642	2 160 765	1 714 183	2 700 957	857 092	10 803 826	8 570 917
Segment's liabilities	4 861 722	857 092	1 620 574	2 571 275	4 321 530	5 142 550	10 803 826	8 570 917

	logging		wood processing		Other		Total	
	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008	31.03.2009	31.03.2008
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	2 242 460	2 682 516	855 129	658 036	57 668	97 962	3 155 257	3 438 513
Production costs of sold production	(2 205 844)	(2 343 454)	(797 881)	(744 124)	(48 306)	(94 940)	(3 052 032)	(3 182 517)
Selling costs	(17 564)	(18 610)	(7 301)	(9 646)	(13 291)	-	(38 156)	(28 255)
General and administration costs	(39 519)	(114 019)	(19 213)	(31 798)	(23 028)	(8 271)	(81 760)	(154 088)
Other incomes/ (expenditures) from economic activity	-	798	(738)	75 384	11 162	(14 162)	10 424	62 020

Segment's profit	(20 467)	207 231	29 996	(52 148)	(15 795)	(19 411)	(6 266)	135 672
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(21 862)	(41 697)	(78 554)	(4 244)	(53 797)	(47 140)	(154 214)	(93 081)
Company's income tax (undivided)	-	(26 905)	-	2 211	-	(5 929)	-	(30 623)
Other taxes	(2 187)	(4 156)	(4 284)	(5 092)	(1 303)	(6 503)	(7 775)	(15 751)
Net result	(44 516)	134 473	(52 843)	(59 274)	(70 896)	(78 982)	(168 255)	(3 783)
Segment's assets	8 454 852	8 536 721	3 074 492	2 439 063	3 843 116	1 219 532	15 372 459	12 195 316
Segment's liabilities	6 917 607	1 219 532	2 305 869	3 658 595	6 148 983	7 317 189	15 372 459	12 195 316

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.

	31.03.2009 LVL	31.03.2008 LVL	31.03.2009 EUR	31.03.2008 EUR
Incomes from sales including	2 167 455	2 340 426	3 084 011	3 330 126
Latvia	2 130 816	2 217 040	3 031 878	3 154 564
Russia	35 773	69 268	50 900	98 559
European Union countries	866	54 118	1 232	77 003
Incomes from rendering of services, including	50 072	76 175	71 246	108 387
Latvia	50 072	60 775	71 246	86 475
European Union countries		15 400	0	21 912
	2 217 527	2 416 601	3 155 257	3 438 513

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.

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