

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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF THE YEAR 2009

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2009

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Council of joint-stock “Saldus mežrūpniecība”

Chairman of the council:	Uldis Mierkalns
Vice-chairman of the council:	Lolita Burkovska
Members of the council:	Vēsmiņš Gunvaldis Lauris Leja Jānis Leimanis

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

	Note	30.06.2009 LVL	30.06.2008 LVL	30.06.2009 EUR	30.06.2008 EUR
Net turnover		4 002 696	5 216 707	5 695 323	7 422 705
Production costs of sold products		(3 396 673)	(5 104 201)	(4 833 030)	(7 262 624)
Gross profit		606 023	112 506	862 293	160 082
Selling costs		(470 236)	(55 666)	(669 086)	(79 206)
General and administration costs		(77 274)	(205 736)	(109 951)	(292 736)
Other income from economic activity		137 329	18 407	195 402	26 191
Other expenses from economic activity		(165 641)	(92 413)	(235 686)	(131 492)
Profit or loss from economic activity		30 201	(222 902)	42 972	(317 161)
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		52 098	14	74 129	20
Other interest payments and the like costs		(129 077)	(131 016)	(183 660)	(186 419)
Profit or loss before extraordinary items and taxes		(46 778)	(353 904)	(66 559)	(503 560)
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		(46 778)	(353 904)	(66 559)	(503 560)
Company's income tax		(5 448)	(8 381)	(7 752)	(11 925)
Deferred company's income tax			(18 930)	-	(26 935)
Other taxes		(14 000)	(13 408)	(19 920)	(19 078)
Profit or (loss),		-66 226	-394 623	-94 231	-561 498
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		<i>(0.17)</i>	<i>(1.02)</i>	<i>(0.24)</i>	<i>(1.45)</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

	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	30 330	34 852	43 156	49 590
Intangible value of the company	132 000	132 000	187 819	187 819
Advanced payments for intangible investments	-	-	-	-
TOTAL	162 330	166 852	230 975	237 409
Fixed assets				
Land, buildings and constructions, biological assets	3 564 371	3 611 470	5 071 643	5 138 659
Equipment and mashinery	1 504 353	1 821 994	2 140 501	2 592 464
Other fixed assets	22 240	31 986	31 645	45 512
Unfinished constructions	593 718	523 520	844 785	744 902
Advance payments for fixed assets	-	-	-	-
TOTAL	5 684 682	5 988 970	8 088 574	8 521 537
Long-term financial investments				
Partnership in the capital of related companies	-	-	-	-
Loans to related companies	-	-	-	-
TOTAL	-	-	-	-
TOTAL LONG-TERM INVESTMENTS	5 847 012	6 155 822	8 319 549	8 758 946
WORKING CAPITAL				
Reserves				
Raw materials, direct materials, auxiliary materials	264 366	274 099	376 159	390 008
Unfinished production	585 556	971 483	833 171	1 382 296
Biological assets	328 858	328 858	467 923	467 923
Made production and goods for selling	464 577	583 791	661 034	830 660
Advance payments for goods	1 409 130	912 478	2 005 011	1 298 339
TOTAL	3 052 487	3 070 709	4 343 298	4 369 225
Debtors				
Debts of buyers and customers	945 056	782 859	1 344 694	1 113 908
Other debtors	145 309	179 336	206 756	255 172
Accured incomes	31 325	31 394	44 571	44 670
Expenses of the following periods	189 379	118 322	269 462	168 357
TOTAL	1 311 069	1 111 911	1 865 483	1 582 107
Money and its equivalents	5 629	480 773	8 009	684 078
TOTAL WORKING CAPITAL	4 369 185	4 663 393	6 216 790	6 635 410
TOTAL ASSETS	10 216 197	10 819 215	14 536 339	15 394 356

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Consolidated balance-sheet (continuation)

		30.06.2009	31.12.2008	30.06.2009	31.12.2008
	Note	LVL	LVL	EUR	EUR
OWN CAPITAL					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		800 242	800 242	1 138 642	1 138 642
Adjustment reserve of foreign currency		(142 055)	(120 061)	(202 126)	(170 831)
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year		(285 981)	(66 905)	(406 914)	(95 197)
Retained earnings of the year of account		(66 226)	(219 076)	(94 231)	(311 717)
TOTAL		3 318 188	3 406 408	4 721 356	4 846 882
TOTAL OWN CAPITAL		3 318 188	3 406 408	4 721 356	4 846 882
ACCURED					
Accured liabilities		48 077	48 077	68 407	68 407
Company's deferred income tax		186 543	186 543	265 427	265 427
TOTAL		234 620	234 620	333 834	333 834
CREDITORS					
Long-term creditors					
Long-term loans from credit institutions		1 945 333	2 115 960	2 767 959	3 010 740
Financial lease liabilities long-term part		332 460	443 495	473 048	631 037
Other creditors		1 388 038	1 388 038	1 975 000	1 975 000
Deferred incomes long-term part		82 129	82 129	116 859	116 859
TOTAL		3 747 960	4 029 622	5 332 867	5 733 636
Short-term creditors					
Short-term loans from credit institutions		1 816 510	2 085 762	2 584 661	2 967 772
Financial lease liabilities short-term part		203 705	236 319	289 846	336 252
Advanced payments received from customers		116 680	225 659	166 021	321 084
Debts to suppliers and contractors		606 325	478 444	862 723	680 764
Debts to associated companies		-	-	-	-
Taxes payable		125 811	48 354	179 013	68 802
Other creditors		46 398	57 786	66 018	82 222
Incomes from following periods short-term part		-	16 241	-	23 109
Unpaid dividends from previous years		-	-	-	-
TOTAL		2 915 429	3 148 565	4 148 282	4 480 004
TOTAL CREDITORS		6 663 389	7 178 187	9 481 148	10 213 640
TOTAL LIABILITIES		10 216 197	10 819 215	14 536 339	15 394 356

Board:

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Chairman of the board

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Member of the board

Consolidated cash flow account

I. Cash flow from basic activity		30.06.2009	30.06.2008	30.06.2009	30.06.2008
		LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes		(46 850)	(353 904)	(66 662)	(503 560)
a) wear and tear of fixed assets and intangible investments (+)		299 311	407 601	425 881	579 964
b) elimination of fixed assets and intangible investments		(111)	323 953	(158)	460 944
c) formation of accruals (except the accruals for insecure debts)		-	-	-	-
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign		-	-	-	-
e) incomes from the acknowledgement of financing		-	-	-	-
f) other interest incomes and the like incomes		(52 098)	(14)	(74 129)	(20)
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		127 472	124 251	181 376	176 793
2. Profit or loss before the corrections of impact of changes of		327 724	501 887	466 309	714 121
a) increase of the remainder of debtors' debts (-) or decrease (+)		(170 704)	(147 119)	(242 890)	(209 331)
b) increase of the remainder of reserves (-) or decrease (+)		34 416	166 664	48 970	237 142
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		55 435	293 255	78 877	417 264
3 Gross cash flow from basic activity		246 871	814 687	351 266	1 159 195
4. Expenditures to interest payers		(127 472)	(131 016)	(181 376)	(186 419)
5. Expenditures for paying company's income tax and immovable property tax		(19 448)	(40 719)	(27 672)	(57 938)
6. Cash flow before extraordinary items		99 951	642 952	142 217	914 838
7. Cash flow from extraordinary items					
Net cash flow from basic activity		99 951	642 952	142 217	914 838
II. Cash flow from investment activities					
1. Purchase or alienation of shares or parts of related or associated companies		-	7 294	-	10 378
2. Granted loans			144 288	-	205 303
3. Purchase of fixed assets and intangible assets		(10 538)	(347 071)	(14 994)	(493 838)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		(24 137)	(6 652)	(34 344)	(9 465)
5. Incomes from selling fixed assets and intangible investments		2 570	-	3 657	-
6. Received interest		51 620	14	73 449	20
6. Net cash flow from investing activities		19 515	(202 127)	27 767	(287 601)
III. Cash flow from financing activities					
1. Received loans		798 203	1 124 079	1 135 741	1 599 420
2. Received financing from the EU		-	-	-	-
3. Received investment in capital		-	-	-	-
4. Expenditures to pay back loans		(1 392 673)	(1 052 367)	(1 981 595)	(1 497 383)
5. Expenditures for redemption of a hired fixed asset		-	(486 962)	-	(692 885)
6. Disbursed dividends		-	-	-	-
6. Net cash flow from financing activity		(594 470)	(415 250)	(845 855)	(590 848)
IV. Result of fluctuations of the exchange rate of foreign currency		(141)	(863)	(201)	(1 228)
V. Net cash flow of the year of account increase (+), decrease (-)		(475 145)	24 712	(676 070)	35 162
VI. Remainder of money or its equivalents at the beginning of the year of		480 774	20 925	684 080	29 774
VII. Remainder of money or its equivalents at the end of the year of		5 629	45 637	8 009	64 936

Board:

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

Consolidated account of the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from reestimates on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(los s) 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	-	-				(219 076)		(219 076)
31.12.2008.	387 141	1 987	2 623 085	800 242	(66 905)	(219 076)	(120 061)	3 406 413
Currency fluctuations due to recalculation	(5)						(21 994)	(21 999)
Reserves of recalculation	-	-	-					-
Distribution of the profit of year 2008	-	-	-		(219 076)	219 076		-
Reserves from reestimates on fixed assets	-	-	-					-
Profit of the year of account	-	-	-			(66 226)		(66 226)
30.06.2009.	387 136	1 987	2 623 085	800 242	(285 981)	(66 226)	(142 055)	3 318 188

	Share capital	Share premium	Other reserves	Reserves from reestimates on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(los s) 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	-	-	-		-	(311 717)		(311 717)
31.12.2008.	550 852	2 827	3 732 314	1 138 642	(95 197)	(311 717)	(170 831)	4 846 889
Currency fluctuations due to recalculation	(7)	-	-		-	-		(31 302)
Reserves of recalculation	-	-	-	-	-	-		-
Distribution of the profit of year 2008	-	-	-	-	(311 717)	311 717		-
Reserves from reestimates on fixed assets	-	-	-	-	-	-		-
Profit of the year of account	-	-	-	-	-	(94 231)		(94 231)
30.06.2009.	550 845	2 827	3 732 314	1 138 642	(406 914)	(94 231)	(202 126)	4 721 356

Board:

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Chairman of the 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 its 3 months 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- June 30, 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
Address	Russia, Pskov Region
Main types of business	Zonalnoje sosse 44a, Pskov, Russia 180007
Owners of the company	Logging Joint-stock company Saldus mežrūpniecība - 99% DOK Nr.3 - 1%
Year of account	January 1- June 30, 2009
3. Name of the company	Saldus
Legal status of the company	Limited liability company (OOO)
Registration number, date, place	1056000426371 December 21, 2005
Adrese	Russia, Pskov Region
Main types of business	Zonalnoje sosse 44a, Pskov, Russia 180007
Owners of the company	Purchase of timber Joint-stock company Saldus mežrūpniecība – 100 %
Year of account	January 1- June 30, 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.	30.06.2008.
RUB/ LVL	0.0161	0.0190
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	- 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 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. Deferred 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 deferred 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 that 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	
	30.06.2009	30.06.2008	30.06.2009	30.06.2008	30.06.2009	30.06.2008	30.06.2009	30.06.2008
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	2 257 419	3 978 760	1 619 653	1 078 752	125 624	159 195	4 002 696	5 216 707
Production costs of sold production	(2 100 476)	(3 711 480)	(1 413 640)	(1 285 217)	(59 657)	(107 504)	(3 573 773)	(5 104 201)
Selling costs	(232 343)	(15 376)	(29 046)	-	(31 747)	(40 290)	(293 136)	(55 666)
General and administration costs	(4 946)	(141 300)	(403)	(49 029)	(71 925)	(15 407)	(77 274)	(205 736)
Other incomes/ (expenditures)	(455)	(52 328)	(71 605)	(21 679)	43 748	-	(28 312)	(74 007)
from economic activity								
Segment's profit	(80 801)	58 276	104 959	(277 173)	6 043	(4 006)	30 201	(222 903)
Incomes from participation in the company's capital							-	-
Financial costs, net	(42 011)	(69 691)	43 589	(31 596)	(78 557)	(29 714)	(76 979)	(131 001)
Company's income tax (undivided)		(18 930)		(47)	-	(8 334)	-	(27 311)
Other taxes	(402)	(2 536)	(9 714)	(5 902)	(9 332)	(4 970)	(19 448)	(13 408)
Net result	(123 214)	(32 881)	138 834	(314 718)	(81 846)	(47 024)	(66 226)	(394 623)
Segment's assets	4 983 625	5 602 886	2 683 233	1 600 824	2 549 339	800 412	10 216 197	8 004 122
Segment's liabilities	3 526 567	800 412	3 751 743	2 401 237	2 937 887	4 802 473	10 216 197	8 004 122

	logging		wood processing		Other		Total	
	30.06.2009	30.06.2008	30.06.2009	30.06.2008	30.06.2009	30.06.2008	30.06.2009	30.06.2008
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	3 212 018	5 661 265	2 304 559	1 534 926	178 747	226 514	5 695 323	7 422 705
Production costs of sold production	(2 988 708)	(5 280 960)	(2 011 429)	(1 828 699)	(84 884)	(152 964)	(5 085 021)	(7 262 624)
Selling costs	(330 594)	(21 878)	(41 329)	-	(45 172)	(57 328)	(417 095)	(79 206)
General and administration costs	(7 038)	(201 052)	(573)	(69 762)	(102 340)	(21 922)	(109 951)	(292 736)
Other incomes/ (expenditures) from economic activity	(647)	(74 456)	(101 885)	(30 846)	62 248	-	(40 284)	(105 302)
Segment's profit	(114 969)	82 919	149 343	(394 382)	8 598	(5 700)	42 972	(317 162)
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(59 776)	(99 161)	62 022	(44 957)	(111 777)	(42 279)	(109 531)	(186 398)
Company's income tax (undivided)	-	(26 935)	-	(67)	-	(11 858)	-	(38 860)
Other taxes	(572)	(3 608)	(13 822)	(8 398)	(13 278)	(7 072)	(27 672)	(19 078)
Net result	(175 318)	(46 785)	197 543	(447 803)	(116 456)	(66 909)	(94 231)	(561 498)
Segment's assets	7 091 060	7 972 189	3 817 897	2 277 767	3 627 383	1 138 884	14 536 339	11 388 840
Segment's liabilities	5 017 853	1 138 884	5 338 249	3 416 652	4 180 237	6 833 303	14 536 339	11 388 840

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.

	30.06.2009 LVL	30.06.2008 LVL	30.06.2009 EUR	30.06.2008 EUR
Incomes from sales including	3 919 841	5 062 578	5 577 431	7 203 400
Latvia	3 883 202	4 825 077	5 525 299	6 865 466
European Union countries	35 773	86 855	50 900	123 584
Other countries	-	150 646	-	214 350
Incomes from rendering of services, including	82 855	154 129	117 892	219 306
Latvia	82 855	131 059	117 892	186 480
European Union countries		23 070	0	32 826
	4 002 696	5 216 707	5 695 323	7 422 705

6. Financial instruments

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

Financial risks

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

Credit risk

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

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

Foreign currency risk

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

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

Interest rate risk

The holding company is subjected to the interest rate risk, which mainly are borrowings from credit institutions and financial leasing companies. Holding company's management think that on June 30, 2009 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

Liquidity risk

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

Real value

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

Statement about the responsibility of management

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

Management verifies that when the report for the period, which ends on June 30, 2009, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

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

Joint-Stock Company “Saldus Mežrūpniecība” and its subsidiary companies

Management Report

on the consolidated report for the first half of 2009

Description of business activities during the reporting period

At the end of the first half of 2009 the situation of the sector has become more stable. The demand has increased.

For the first half of 2009 the consolidated loss of Joint-Stock Company “Saldus Mežrūpniecība” from business activities after taxation is of LVL 66 226 at net turnover of LVL 4 002 696, which makes loss per one share of LVL 0.17.

The consolidated financial report of the Company has been prepared on the basis of the information being in disposition of the Board of the Company and the requirements of the valid legislative instruments, and provides authentic and clear presentation of Assets and Liabilities, Financial Position, and Profit and Loss of the Joint-Stock Company and the Consolidation Group. The report includes adequate information.

Significant events after the end of the reporting year

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

Prognosis on the financial indexes and commercial plans of 2009

At the beginning of 2009 the Management has worked on internal reorganization of the Company for adaptation to the current economic position and financial indexes of the Company.

It is not planned to change the volume of forest working and sales. It will remain at the previous level – 270 000 m³. There is planned double increase of volume of board lumber production and sales – up to 43 600 m³ per year. As regards 2009 it is planned to work with profit in the second half of the year, thus compensating the losses incurred during the first months.

Policy of business and financial risk control

It is necessary to continue activities on outdated fixed assets realization on the lumber mill and real estate – mechanical workshop “Mežvidi” in Novadnieki parish and realization of the “Paegles” lumber mill production equipment, aiming to decrease short-term credits usage, thus becoming independent from short-term credits. Surely it is necessary to decrease board lumber products stock and to work more aggressively with debtors for improving cash flow.

On 28 August, 2009

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
