

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

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE YEAR 2008**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

**Saldus, 2009**

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Address: Kuldigas 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 Ivars Feikners ( <i>Ivars Feikners</i> ) – member of the Board Gundars Maurs ( <i>Gundars Maurs</i> ) – member of the Board Janis Merkalns ( <i>Jānis Mierkalns</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 Lauris Leja ( <i>Lauris Leja</i> ) – member of the Council Janis Leimanis ( <i>Jānis Leimanis</i> ) – member of the Council Gunvaldis Vesmins ( <i>Gunvaldis Vēsminš</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, 2008
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, 2008
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, 2008
Name and address of the Auditor	Ginta Jaunzeme ( <i>Ginta Jaunzeme</i> ) Sworn Auditor (Certificate of Latvian Sworn Auditor No.16) License of Commercial Company No.39

(Translated from Latvian)

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**Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC**

**Communication of the Board**

**on Report on activities in 2008**

**Description of business activities during reporting period**

During reporting period there took place very big and different perceptual oscillations of both lumber and timber and board lumber market prices. Forest working volume is behind of planned indexes: sale of round timber was of 201 973 m<sup>3</sup> only instead of 262 022 m<sup>3</sup>, round timber preparation was of 210 934 m<sup>3</sup> instead of 274 624 m<sup>3</sup>. Forest working was artificially broken and it is directly related to dramatic drop of timber offer in private sector and unreasonably high price of resources on long-term contract of Latvian State forests, JSC (A/S „Latvijas valsts meži”).

Volumes of wood processing are in accordance with planned indexes (there was produced 16 154 m<sup>3</sup> board lumber and 1 358 m<sup>3</sup> of firewood for fireplaces), but there was not fulfilled plans of board lumber sales (sold 14 only 862 m<sup>3</sup> of board lumber instead of planned 19 697 m<sup>3</sup>, and firewood sale – 1 692 m<sup>3</sup>). During whole time of reporting period demand for structural board lumber was very low and prices continue to drop. In May of the reporting period there was adopted decision on suspension of „Paegles” Lumber Mill operation due to absence of prospected profit in current economical conditions.

In 2008 loss of Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC from business activities after taxation is of LVL 62 674 at net turnover of LVL 9 463 671, which makes loss per one share of LVL 0.16.

Financial report of the Company was prepared on the basis of information being in disposition of the Board of the Company and requirements of valid legislative instruments, and provides authentic and clear presentation of Assets and Liabilities, Financial Position, and Profit and Loss of the Company.

The communication includes adequate information

**Significant events after the end of the reporting year**

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

**Prognosis on financial indexes and commercial plans of 2009**

At the beginning of 2009 there were no improvements on board lumber market. At the moment there is not foreseen for how long time it may be, because it is directly related to economic recovery in Latvia and in the world, due to export of the main part of products. But positive sign is what at the moment price of timber offered by Latvian State Forests, JSC drop, which leads to profitability of board lumber production as well.

Sales price stagnation take place for the main part of round timber range as well. Therewith take place problems with sale of wood for paper production and firewood due to very low demand – at the moment products of this range are offered on the market. To continue forest working Latvian State Forests, JSC is ready to decrease prices of timber till level allowing profitable woodworking production, export, and forest working companies operation. Still offer of private timber is very low due to low sales price of round timber.

At such market situation the Company is not in position to operate in a balanced manner, using own resources (technical equipment, workers, management) with maximum efficiency and as a result the Company suffers loss. Management is working on internal reorganisation of the Company for adaptation to the current economic position and financial indexes of the Company.

There is not planned to change volume of forest working and sales, it shall stay at previous level – 270 000 m<sup>3</sup>. There is planned double increase of volume of board lumber production and sales – up to 43 600 m<sup>3</sup> per year.

**Policy of business and financial risk control**

In 2009 Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC will continue to divide business operation risk between forest working and board lumber production.

There is necessary to continue activities on outdated fixed assets realisation on lumber mill and real estate (mechanical workshop in Mežvidi area), old lumber mills in Saldus area, and realisation of Paegles lumber mill production equipment in aim to decrease of short-term credits usage, becoming independent from short-term credits. For sure, it is required to decrease board lumber products stock and more aggressive work with debtors for improving cash flow this way.

**Profit allocation**

In 2008 Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC operated with loss.

Board:

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Jānis Bertrāns  
Chairman of board

Ivars Feikners  
Vice-chairman

Gundars Maurs  
Member of board

Janis Mierkalns  
Member of board

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## Profit or loss calculation

	Note	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Net turnover	4	9 463 671	12 261 490	13 465 591	17 446 528
Production costs of the sold production	5	(9 097 640)	(11 284 137)	(12 944 775)	(16 055 880)
<b>Gross profit</b>		<b>366 031</b>	<b>977 353</b>	<b>520 815</b>	<b>1 390 648</b>
Selling costs	6	(81 135)	(150)	(115 445)	(213)
General administration costs	7	(285 620)	(310 899)	(406 401)	(442 369)
Other income from company's economic activity	8	204 536	89 943	291 029	127 977
Other expenditures from company's economic activity	8	(77 349)	(94 772)	(110 058)	(134 848)
<b>Profit or loss from economic activity</b>		<b>126 463</b>	<b>661 475</b>	<b>179 941</b>	<b>941 194</b>
Net profit from participation in the capital of subsidiary and associated companies					-
Other interest income and the like income	10	20	15 536	28	22 106
Other interest payments and the like payments	10	(236 462)	(185 397)	(336 455)	(263 796)
<b>Profit or loss before extraordinary items and taxes</b>		<b>(109 979)</b>	<b>491 614</b>	<b>(156 486)</b>	<b>699 504</b>
Extraordinary income					
Extraordinary expenditures					
<b>Profit or loss before taxes</b>		<b>(109 979)</b>	<b>491 614</b>	<b>(156 486)</b>	<b>699 504</b>
Company's income tax		-	(65 020)	-	(92 515)
Company's deferred income tax	11	57 971	(7 695)	82 485	(10 949)
Other taxes	11	(10 666)	(9 773)	(15 176)	(13 906)
<b>Profit or (loss)</b>		<b>-62 674</b>	<b>409 126</b>	<b>-89 177</b>	<b>582 134</b>

### Profit/ (loss) per share

*lats per share / EUR per share*

**(0.16)      1.06      (0.23)      1.50**

The annex on pages 11-31 is an integral part of this financial statement

Board :

Jānis Bertrāns  
Chairman of board

Ivars Feikners  
Vice-chairman

Gundars Maurs  
Member of board

Janis Mierkalns  
Member of board

## Balance sheet

		31.12.2008	31.12.2007	31.12.2008	31.12.2007
	Note	LVL	LVL	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like items		34 824	12 195	49 550	17 352
Company's intangible value		-	-	-	-
Advance payments for intangible investments		-	20 210	-	28 756
<b>TOTAL</b>	<b>12</b>	<b>34 824</b>	<b>32 405</b>	<b>49 550</b>	<b>46 108</b>
<b>Fixed assets</b>					
Land, premises and buildings		2 956 961	2 258 227	4 207 376	3 213 168
Biological assets		600 488	-	854 417	-
Equipment and machinery		1 441 205	2 351 157	2 050 650	3 345 395
Other fixed assets		24 327	31 870	34 614	45 347
Unfinished constructions		84 954	14 540	120 879	20 689
Advance payments for fixed assets		-	10 951	-	15 582
<b>TOTAL</b>	<b>13</b>	<b>5 107 935</b>	<b>4 666 745</b>	<b>7 267 937</b>	<b>6 640 180</b>
<b>Long-term financial investments</b>					
Participation in the capital of related companies		346 108	346 108	492 467	492 467
Loans to the related companies		692 836	691 644	985 817	984 121
<b>TOTAL</b>	<b>14</b>	<b>1 038 944</b>	<b>1 037 752</b>	<b>1 478 284</b>	<b>1 476 588</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>6 181 703</b>	<b>5 736 902</b>	<b>8 795 771</b>	<b>8 162 876</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		338 278	6 745	481 326	9 597
Unfinished production		971 483	1 124 298	1 382 296	1 599 732
Finished production and goods for sale		453 814	85 900	645 719	122 225
Advance payments for goods		966 602	137 036	1 375 351	194 985
<b>TOATL</b>	<b>15</b>	<b>2 730 177</b>	<b>1 353 979</b>	<b>3 884 692</b>	<b>1 926 539</b>
<b>Debtors</b>					
Debts of buyers and customers	16	760 292	760 987	1 081 798	1 082 787
Debts of subsidiaries		30 025	56 338	42 722	80 162
Other debtors	17	37 535	104 051	53 407	148 051
Accrued income		30 205	42 887	42 978	61 023
Expenditures of the next periods	18	9 550	2 201	13 588	3 132
<b>TOTAL</b>		<b>867 607</b>	<b>966 464</b>	<b>1 234 494</b>	<b>1 375 154</b>
<b>Money and its equivalents</b>					
		478 208	12 619	680 429	17 955
<b>TOTAL CURRENT ASSETS</b>		<b>4 075 992</b>	<b>2 333 062</b>	<b>5 799 614</b>	<b>3 319 648</b>
<b>TOTAL ASSETS</b>		<b>10 257 695</b>	<b>8 069 964</b>	<b>14 595 385</b>	<b>11 482 524</b>

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns  
Chairman of board

Ivars Feikners  
Vice-chairman

Gundars Maurs  
Member of board

Janis Mierkalns  
Member of board

## Balance sheet (continuation)

		31.12.2008.	31.12.2007.	31.12.2008.	31.12.2007.
	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		800 242	-	1 138 642	-
Other reserves		2 623 085	2 213 959	3 732 314	3 150 180
Retained profit from the previous year		-	-	-	-
Retained profit (loss) of the year of account		(62 674)	409 126	(89 177)	582 134
<b>TOTAL</b>		<b>3 749 776</b>	<b>3 012 208</b>	<b>5 335 451</b>	<b>4 285 986</b>
<b>TOTAL OWN CAPITAL</b>		<b>3 749 776</b>	<b>3 012 208</b>	<b>5 335 451</b>	<b>4 285 986</b>
<b>CREDITORS</b>					
<b>Long-term creditors</b>					
Deferred company's income tax	11	186 543	244 514	265 427	347 912
Long-term loans from credit institutions	21	1 658 057	1 986 052	2 359 203	2 825 897
Long-term part of financial lease liabilities	22	421 925	687 449	600 345	978 152
Other creditors		1 388 038		1 975 000	
Long-term part of incomes from next periods	26	82 129	98 370	116 859	139 968
<b>TOTAL</b>		<b>3 736 692</b>	<b>3 016 385</b>	<b>5 316 834</b>	<b>4 291 929</b>
<b>Short-term creditors</b>					
Short-term loans from credit institutions	21	1 954 435	932 215	2 780 910	1 326 422
Short-term part of financial lease	22	236 319	326 524	336 252	464 602
Advance payments received from buyers		10 108	8 128	14 382	11 565
Debts to suppliers and contractors		436 451	465 854	621 014	662 851
Accured liabilities	25	48 022	61 140	68 329	86 994
Taxes payable	23	37 957	99 743	54 008	141 922
Other creditors	24	31 694	131 526	45 096	187 145
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>2 771 227</b>	<b>2 041 371</b>	<b>3 943 101</b>	<b>2 904 609</b>
<b>TOTAL CREDITORS</b>		<b>6 507 919</b>	<b>5 057 756</b>	<b>9 259 934</b>	<b>7 196 538</b>
<b>TOTAL LIABILITIES</b>		<b>10 257 695</b>	<b>8 069 964</b>	<b>14 595 385</b>	<b>11 482 524</b>

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns  
Chairman of board

Ivars Feikners  
Vice-chairman

Gundars Maurs  
Member of board

Janis Mierkalns  
Member of board

**Cash flow statement**

<b>I. Cash flow from basic activity</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
	LVL	LVL	EUR	EUR
<b>1. Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>(109 979)</b>	<b>491 613</b>	<b>(156 486)</b>	<b>699 502</b>
a) wear and tear of fixed assets and intangible investments (+)	635 406	703 489	904 101	1 000 975
b) elimination of fixed assets and intangible investments	155 201	162 299	220 831	230 931
c) formation of accruals (except for the accruals for insecure debts)	13 118	(13 528)	18 665	(19 249)
d) profit (-) or loss (+) from fluctuations of exchange rate	(9 153)	29 576	(13 024)	42 083
e) income from the acknowledgement of financing	(16 241)	(16 241)	(23 109)	(23 109)
f) other interest income and the like income	(20)	(15 536)	(28)	(22 106)
h) interest payments and the like expenditures	236 462	200 592	336 455	285 417
<b>2. Profit or loss before the corrections of the impact of balance</b>	<b>904 794</b>	<b>1 542 264</b>	<b>1 287 406</b>	<b>2 194 444</b>
a) increase (+) or decrease (-) of debtors debt	98 857	(328 402)	140 661	(467 274)
b) increase (+) or decrease (-) of the reserves of accruals	(1 376 196)	(464 402)	(1 958 150)	(660 785)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	52 334	110 787	74 465	157 636
<b>3. Gross cash flow from basic activity</b>	<b>(320 211)</b>	<b>860 247</b>	<b>(455 619)</b>	<b>1 224 021</b>
4. Expenditures to pay interest payments	(236 462)	(200 592)	(336 455)	(285 417)
5. Expenditures to pay company's income tax and immovable property tax	47 305	(46 593)	67 309	(66 296)
<b>6. Cash flow before extraordinary items</b>	<b>(509 368)</b>	<b>613 062</b>	<b>(724 765)</b>	<b>872 309</b>
7. Cash flow from extraordinary items				
<b>8. Net cash flow from basic activity</b>	<b>(509 368)</b>	<b>613 062</b>	<b>(724 765)</b>	<b>872 309</b>
<b>II. Cash flow from investments</b>				
1. Purchase or dispossession of shares of subsidiary or associate companies	(1)	(194 741)	(1)	(277 091)
2. Loans given	(1 192)	(484 368)	(1 696)	(689 194)
3. Acquisition of fixed assets and intangible investments	(398 686)	(260 195)	(567 279)	(370 224)
4. Expenditures for advance payments for fixed assets and unfinished constructions	(39 253)	(45 701)	(55 852)	(65 027)
5. Income from selling fixed assets and intangible investments	-	359 611	-	511 680
6. Interest received	20	2 854	28	4 061
<b>6. Net cash flow from investments</b>	<b>(439 112)</b>	<b>(622 540)</b>	<b>(624 800)</b>	<b>(885 795)</b>
<b>III. Cash flow from financing activities</b>				
1. Loans received	3 015 262	1 123 136	4 290 331	1 598 079
2. EU financing received	-	-	-	-
3. Received investments in capital	-	-	-	-
4. Expenditures for paying back loans	(932 999)	(598 671)	(1 327 538)	(851 832)
5. Expenditures for redemption of asset that was hired	(668 194)	(386 834)	(950 754)	(550 415)
6. Paid out dividends	-	(96 784)	-	(137 711)
<b>6. Net cash flow from financing activities</b>	<b>1 414 069</b>	<b>40 847</b>	<b>2 012 039</b>	<b>58 120</b>
<b>IV. The result of the exchange rate fluctuations</b>	<b>-</b>	<b>(29 576)</b>	<b>-</b>	<b>(42 083)</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>465 589</b>	<b>1 793</b>	<b>662 473</b>	<b>2 551</b>
VI. Money and its equivalents balance at the beginning of the year of	12 619	10 826	17 955	15 404
VII. Money and its equivalents balance at the end of the year of account	478 208	12 619	680 429	17 955

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns  
Chairman of board

Ivars Feikners  
Vice-chairman

Gundars Maurs  
Member of board

Janis Mierkalns  
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, 2006</b>	<b>387 136</b>	<b>1 987</b>	<b>2 056 620</b>	<b>-</b>	<b>261 333</b>	<b>2 707 076</b>
Distribution of profit of the year 2006	-	-	157 339		(261 333)	(103 994)
Paid out dividends	-	-				-
Profit of the year of account,adjusted	-	-			409 126	409 126
<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>
Revaluation reserves	-	-		800 242	-	800 242
Distribution of the year 2007 profit	-	-	409 126		(409 126)	-
Calculated dividends	-	-				-
Profit of the year of account	-	-	-		(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>

	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, 2006</b>	<b>550 845</b>	<b>2 827</b>	<b>2 926 307</b>	<b>-</b>	<b>371 843</b>	<b>3 851 822</b>
Distribution of profit of the year 2006	-	-	223 873	-	(371 843)	(147 970)
Paid out dividends	-	-	-	-	-	-
Profit of the year of account,adjusted	-	-	-	-	582 134	582 134
<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>
Revaluation reserves	-	-	-	1 138 642	-	1 138 642
Distribution of the year 2007 profit	-	-	582 134	-	(582 134)	-
Calculated dividends	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	(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>

Board:

Jānis Bertrāns  
Chairman of board

Ivars Feikners  
Vice-chairman

Gundars Maurs  
Member of board

Janis Mierkalns  
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 2008 the joint-stock company “Saldus mežrūpniecība” prepare consolidated annual report., herein after Holding company.

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

**1. Name of the company****Pakuļu sporta bāze / Pakuļi Sports Centre**

Legal status of the company

Limited liability company

Registration number, registration date in commercial register

48503009010 November 21, 2002

Address

Mežvidi, Novadnieku pag. Saldus rajons LV 3801

Main types of business

Hunting and related services. Shooting practice and organization of shooting competitions with hunting weapons

Owner of the company

Joint-stock company Saldus mežrūpniecība, 100%

Year of account

January 1- December 31, 2008

**2. Name of the company****Saldus Les**

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.- 1%

Year of account

January 1- December 31, 2008

**3. Name of the company****Saldus**

Legal status of the company

Limited liability company (OOO)

Registration number, date, place

1056000426371 December 21, 2005

Russia, Pskov Region

Adrese

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- December 31, 2008

## **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.	31.12.2007.
USD/ LVL	0,495	0,484
RUB/ LVL	0.0171	0.0197
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 included 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 of 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. Alls 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	
	2008	2007	2008	2007	2008	2007	2008	2007
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6 882 488	9 196 040	2 272 647	3 065 450	308 536	-	9 463 671	12 261 490
Production costs of sold products	(6 486 468)	(8 394 825)	(2 322 731)	(2 889 312)	(288 441)	-	(9 097 640)	(11 284 137)
Selling costs	-	-	(44 262)	(150)	(36 873)		(81 135)	(150)
General administration costs	(129 415)	-	(63 705)	-	(92 500)	(310 899)	(285 620)	(310 899)
Other incomes/expenditures from economic activity	115 576	92 304	-	530	11 611	(97 663)	127 187	(4 829)
<b>Segment profit</b>	<b>382 181</b>	<b>893 519</b>	<b>(158 051)</b>	<b>176 518</b>	<b>(97 667)</b>	<b>(408 562)</b>	<b>126 463</b>	<b>661 475</b>
Financial expenditures, net	(166 679)	(41 323)	(59 081)	(19 790)	(10 682)	(108 748)	(236 442)	(169 861)
Company income tax (undistributable)					57 971	(72 715)	57 971	(72 715)
Other taxes	(8 187)	(5 334)	(1 954)	(4 439)	(525)		(10 666)	(9 773)
<b>Net result</b>	<b>207 315</b>	<b>846 862</b>	<b>(219 086)</b>	<b>152 289</b>	<b>(50 903)</b>	<b>(590 025)</b>	<b>(62 674)</b>	<b>409 126</b>
Segment assets	5 529 562	3 198 599	2 102 372	3 372 715	2 625 761	1 498 650	10 257 695	8 069 964
Segment liabilities	4 478 376	3 697 676	1 576 779	1 440 224	4 202 540	2 932 064	10 257 695	8 069 964

	logging		timber processing		Other		Total	
	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 792 898	13 084 786	3 233 685	4 361 742	439 007	-	13 465 591	17 446 528
Production costs of sold products	(9 229 412)	(11 944 760)	(3 304 948)	(4 111 121)	(410 415)	-	(12 944 775)	(16 055 880)
Selling costs	-	-	(62 979)	(213)	(52 466)	-	(115 445)	(213)
General administration costs	(184 141)	-	(90 644)	-	(131 616)	(442 369)	(406 401)	(442 369)
Other incomes/expenditures from economic activity	164 450	131 337	-	754	16 521	(138 962)	180 971	(6 871)
<b>Segment profit</b>	<b>543 795</b>	<b>1 271 363</b>	<b>(224 886)</b>	<b>251 162</b>	<b>(138 968)</b>	<b>(581 331)</b>	<b>179 941</b>	<b>941 194</b>
Financial expenditures, net	(237 163)	(58 797)	(84 065)	(28 159)	(15 199)	(154 734)	(336 427)	(241 690)
Company income tax	-	-	-	-	82 485	(103 464)	82 485	(103 464)
Other taxes	(11 649)	(7 590)	(2 780)	(6 316)	(747)	-	(15 176)	(13 906)
<b>Net result</b>	<b>294 983</b>	<b>1 204 976</b>	<b>(311 731)</b>	<b>216 688</b>	<b>(72 428)</b>	<b>(839 530)</b>	<b>(89 177)</b>	<b>582 134</b>
Segment assets	7 867 858	4 551 196	2 991 406	4 798 941	3 736 121	2 132 387	14 595 385	11 482 524
Segment liabilities	6 372 155	5 261 319	2 243 554	2 049 254	5 979 676	4 171 951	14 595 385	11 482 524



**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.

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Income from sales, int. Al.	9 266 208	11 841 126	13 184 626	15 809 320
Latvia	9 036 635	11 058 040	12 857 973	15 734 173
the EU countries	150 526	730 273	214 179	
Other countries	79 047	52 813	112 474	75 146
Income from rendering of services, int. Al.	197 463	420 364	280 965	598 124
Latvia	174 062	420 364	247 668	598 124
the EU countries	23 401	0	33 297	
	<b>9 463 671</b>	<b>12 261 490</b>	<b>13 465 591</b>	<b>16 407 444</b>

**5. Production costs of sold products**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Actual cost of sold products				
Wages	960 074	1 193 888	1 366 062	1 698 750
Wear and tear of capital assets	608 405	678 128	865 682	964 889
Purchasing costs of raw materials	2 330 534	2 588 113	3 316 051	3 682 553
Stem taxes	3 378 681	5 031 955	4 807 430	7 159 827
Electricity costs	83 800	72 415	119 237	103 037
Security, heating	24 445	18 652	34 782	26 539
Services received from outside	1 646 128	1 655 685	2 342 229	2 355 828
Other costs	65 573	45 301	93 302	64 458
	<b>9 097 640</b>	<b>11 284 137</b>	<b>12 944 775</b>	<b>16 055 880</b>

**6. Selling costs**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	LVL	LVL	EUR	EUR
Wages	17863		25417	
Wear and tear of capital assets	402		572	
Purchasing costs of raw materials	1563		2224	
Purchasing costs of goods	60221		85687	
Communication costs	228		324	
Shop costs	343		488	
Goods transportation costs	515		733	
Other costs	0	150		213
	<b>81 135</b>	<b>150</b>	<b>115 445</b>	<b>213</b>

**7. General and administration costs**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	LVL	LVL	EUR	EUR
Administration costs				
Wages	158 223	162 609	225 131	231 372
Wear and tear of capital assets	26 600	25 360	37 848	36 084
Communication costs	8 959	6 657	12 748	9 472
Office upkeep costs	27 364	50 784	38 935	72 259
Annual report costs	6 635	5 726	9 441	8 147
Banking services	5 665	3 104	8 061	4 417
Insurance costs	12 657	13 076	18 009	18 605
Legal services	7 814	4 719	11 118	6 715
Travelling allowance	4 318	5 867	6 144	8 348
Maintenance of the capital assets of administration	27 385	32 997	38 965	46 951
	<b>285 620</b>	<b>310 899</b>	<b>406 401</b>	<b>442 369</b>

**8. Other income from economic activity**

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	LVL	LVL	EUR	EUR
Other income				
Income from excluding of long-term investments	184 201	68 335	262 094	97 232
Income from the fluctuations of exchange rate		848	0	1 207
Other income	4 094	7 834	5 825	11 147
Income of the next periods	16 241	16 241	23 109	23 109
	<b>204 536</b>	<b>93 258</b>	<b>291 029</b>	<b>132 694</b>

**8. Other costs of economic activity**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Other expenditure				
Expenditure due to exchange rate fluctuations	26 559	29 576	37 790	42 083
Donations	3 874	11 370	5 512	16 178
Accruals for insecure debtors	30 205	0	42 978	0
Other expenditure	4 026	13 788	5 728	19 619
Payments into private pension funds	8 862	24 843	12 609	35 348
Penalties	3 823	15 195	5 440	21 621
	<b>77 349</b>	<b>94 772</b>	<b>110 058</b>	<b>134 848</b>

**9. Staff costs**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Average number of employees	144	144		
<b>Staff costs in total</b>				
Wages	913 755	1 114 409	1 300 156	1 585 661
Social security tax	222 405	242 088	316 454	344 460
	<b>1 136 160</b>	<b>1 356 497</b>	<b>1 616 610</b>	<b>1 930 121</b>
Int. Al.				
Wages of production workers				
Wages	786 418	981 469	1 118 972	1 396 505
Social security tax	191 519	212 419	272 507	302 245
	<b>977 937</b>	<b>1 193 888</b>	<b>1 391 479</b>	<b>1 698 750</b>
Administration wages				
Wages	127 337	132 940	181 184	189 157
Social security tax	30 886	29 669	43 947	42 215
	<b>158 223</b>	<b>162 609</b>	<b>225 131</b>	<b>231 372</b>
Int. Al. For management				
Wages	63 433	49 385	90 257	70 269
Social security tax	15 282	11 333	21 744	16 125
	<b>78 715</b>	<b>60 718</b>	<b>112 001</b>	<b>86 394</b>

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

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
% for granted loans		12682	0	
Received % from the balance of account	20	2 854	28	4 061
	<b>20</b>	<b>15 536</b>	<b>28</b>	<b>4 061</b>
Paid % for loans	184 383	147 524	262 353	209 908
Paid % for financial lease	52 079	37 873	74 102	53 888
	<b>236 462</b>	<b>185 397</b>	<b>336 455</b>	<b>263 796</b>

## 11. Company income tax

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Company income tax for the year of account	0	65 020	0	92 515
	<b>0</b>	<b>65 020</b>	<b>0</b>	<b>92 515</b>

Deferred company income tax	57 971	7 695	82 485	10 949
	<b>57 971</b>	<b>7 695</b>	<b>82 485</b>	<b>10 949</b>

In 2008, in compliance with the Company Income Tax Law Paragraph 14.1 the joint-stock company Saldus mežrūpniecība took into possession a subsidiary company Pakuļi Sports Centre Ltd. and as a result the company lost 28083 LVL.

### Deferred company income tax:

	2008 LVL	2007 LVL	2008 EUR	2007 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)	3 389 011	4 375 308	4 822 128	6 225 502
Residual value of capital assets needed for taxes	2 051 955	684 076	2 919 669	973 352
Provisions for bad debts	45 415			
Accruals for vacations	48 022	61 140	68 329	86 994
Temporary difference	1 243 619	1 630 092	1 769 510	2 319 412
<b>Liabilities of deferred tax</b>	<b>186 543</b>	<b>244 514</b>	<b>265 427</b>	<b>347 912</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

Initial value 31.12.2007.	27 359		20 210	47 569
Purchase	29 799		11 000	40 799
2008 Decrease of value	(3 150)		(31 210)	(34 360)
				-
Initial value 31.12.2008.	54 008	-	-	54 008
Accured depreciation 31.12.2007.	15 164			15 164
Depreciation	7 065			7 065
2008 Decrease of value	(3 045)			(3 045)
				-
Accured depreciation 31.12.2008.	19 184	-	-	19 184
<b>Residual value 31.12.2007.</b>	<b>12 195</b>	-	<b>20 210</b>	<b>32 405</b>
<b>Residual value 31.12.2008.</b>	<b>34 824</b>	-	-	<b>34 824</b>
Depreciation rate (by the linear method)	5 years			

	Software	Intangible value	Advance payments for intangible investments	Total
	EUR	EUR	EUR	EUR
Initial value 31.12.2007.	38 928	-	28 756	67 685
Purchase	42 400	-	15 652	58 052
2008 Decrease of value	(4 482)	-	(44 408)	(48 890)
	-	-	-	-
Initial value 31.12.2007.	76 846	-	-	76 846
Accured depreciation 31.12.2007.	21 576	-	-	21 576
Depreciation	10 053	-	-	10 053
2008 Decrease of value	(4 333)	-	-	(4 333)
	-	-	-	-
Accured depreciation 31.12.2008.	27 296	-	-	27 296
<b>Residual value 31.12.2007.</b>	<b>17 352</b>	-	<b>28 756</b>	<b>46 108</b>
<b>Residual value 31.12.2008.</b>	<b>49 550</b>	-	-	<b>49 550</b>
Depreciation rate (by the linear method)	5 gadi			

Advance payments for intangible investments are due because of the development of accounting program. Decrease is written off accrued costs due for the development of accounting program.

Costs of wear and tear are included in the following posts of profit or loss

	208 LVL	2007 LVL	208 EUR	2007 EUR
General administration costs	7 065	5 170	10 053	7 356

### Company's intangible value

The intangible value of the Holding in 2007 is 132 000 Ls. It arose due to the purchase of Pakuļi Sports Centre Ltd. which is 100 % subsidiary company of the joint-stock company Saldus mežrūpniecība. In order to check and to decrease its intangible value, a recoverable value was established for Pakuļi Sports centre Ltd. In 2005 a certified real estate valuator estimated that the value of land which is in possession of Pakuļi Sports Centre Ltd. amount of which is 20,96 ha (at the time of purchase the value of land made 80-90 % of its assets) is 146 000 lats (i.e. 0,70 Ls/m<sup>2</sup>). The management asked to evaluate the value of this real estate again by the Association of Real Estate Valuation and received their valuation which exceeds the purchase price of this real estate- 157 000 Ls (i.e. . 0,75 Ls/m<sup>2</sup>). As a result there does not have to be acknowledged the decrease of intangible value.

### 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 31.12.2007.	2 687 254		3 481 707	92 028	14 540	6 275 529
2008 Purchase	55 305	600 488	296 300	5 409	418 911	1 376 413
Liquidity	(138 503)		(1 269 253)	(16 574)	(348 497)	(1 772 827)
Reconstruction*	797 391					797 391
Reshuffle						-
Accounting value 31.12.2008.	3 401 447	600 488	2 508 754	80 863	84 954	6 676 506
Accrued wear and tear 31.12.2007.	429 027		1 130 550	60 158		1 619 735
Wear and tear	115 667		501 072	11 602		628 341
2008 Wear and tear of liquid assets	(100 208)		(564 074)	(15 224)		(679 506)
Reshuffles						-
Accrued wear and tear 31.12.2008.	444 486		1 067 548	56 536	-	1 568 570
<b>Residual value 31.12.2007.</b>	<b>2 258 227</b>		<b>2 351 157</b>	<b>31 870</b>	<b>14 540</b>	<b>4 655 794</b>
<b>Residual value 31.12.2008.</b>	<b>2 956 961</b>	<b>600 488</b>	<b>1 441 205</b>	<b>24 327</b>	<b>84 954</b>	<b>5 107 935</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 31.12.2007.	3 823 618		4 954 023	130 944	20 688	8 929 273
2008 Purchase	78 692	854 417	421 597	7 696	596 058	1 958 460
Liquidity	(197 072)		(1 805 984)	(23 583)	(495 867)	(2 522 506)
Reconstruction*	1 134 585		-	-	-	1 134 585
Put into operation	-		-	-	-	-
Accounting value 31.12.2008.	4 839 823	854 417	3 569 635	115 058	120 879	9 499 813
Accrued wear and tear 31.12.2007.	610 450		1 608 628	85 597	-	2 304 674
Wear and tear	164 579		712 961	16 508	-	894 049
2008 Wear and tear of liquid assets	(142 583)		(802 605)	(21 662)	-	(966 848)
Reshuffles	-		-	-	-	-
Accrued wear and tear 31.12.2008.	632 447		1 518 984	80 443	-	2 231 875
<b>Residual value 31.12.2007.</b>	<b>3 213 168</b>	<b>-</b>	<b>3 345 395</b>	<b>45 347</b>	<b>20 688</b>	<b>6 624 599</b>
<b>Residual value 31.12.2008.</b>	<b>4 207 376</b>	<b>854 417</b>	<b>2 050 651</b>	<b>34 614</b>	<b>120 879</b>	<b>7 267 937</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

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Revaluated real estate in year 2008	797 391			0
<i>*reconstruction in total:</i>	797 391			0
Trade centre	0	14 540	0	20 689
Construction of a fence for repair shop	8 016			0
Saw log sorting scanner and frame	40 583			0
Sieve and field of chip crusher construction	36 355			0
<i>in total unfinished construction objects:</i>	84 954	14 540	0	20 689

#### 14. Long-term financial investments

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

	Share part (%)		Legal address
	31.12.2008.	31.12.2007.	
<u>Subsidiary</u>			
SIA „Pakuļu sporta bāze”	100	100	Mežvidi, Novadnieku pag., Saldus raj., Latvija
ООО «Салдус»	100	100	Zonalnoje sosse 44a, Pleskava, Krievija
ООО «Деревообрабатывающий комбинат № 3»	100	99.997	Zonalnoje sosse 44a, Pleskava, Krievija

Investments in the share capital of subsidiaries are as follows:

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
SIA Pakuļu sporta bāze	146 000	146 000	207 739	207 739
ООО «Салдус»	5 200	5 200	7 399	7 399
ООО «Деревообрабатывающий комбинат № 3»	194 908	194 908	277 329	277 329
<i>total long-term financial investments</i>	346 108	346 108	492 467	492 467
SIA Pakuļu sporta bāze	86 475	54 000	123 043	76 835
ООО «Деревообрабатывающий комбинат № 3»	606 361	637 644	862 774	907 286
<i>total debts to the subsidiaries</i>	692 836	691 644	985 817	984 121

**15. Reserves**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Materials, spare parts, inventory	338 278	6 745	481 326	9 597
Round timber in forests	414 273	305 480	589 457	434 659
Round timber at rads and in workshops	433 478	524 840	616 784	746 780
Sawn timber	123 732	293 978	176 055	418 293
<i>in total unfinished construction</i>	<i>971 483</i>	<i>1 124 298</i>	<i>1 382 296</i>	<i>1 599 732</i>
Finished production	453 814	85 900	645 719	122 225
Advance payments for goods	966 602	137 136	1 375 351	195 127

In the Holding on 31.12.2007 was carried out inventory and non-marketable stocks were not established.

**16. Debts of buyers and customers**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
For transport services	39 853	9 750	56 706	13 873
For the lease of immovables and equipment	13 115	15 010	18 661	21 357
For timber	752 739	767 578	1 071 051	1 092 165
debtors debts in total	805 707	792 338	1 146 418	1 127 395
accruals for doubtful debtors	45 415	31 351	64 620	44 608
<i>Debts of buyers and customers in net value:</i>	<i>760 292</i>	<i>760 987</i>	<i>1 081 798</i>	<i>1 082 787</i>

Residuals of debtors debts in the balance sheet are shown in their net value. In 2008, there were written off reserves for insecure debts for the amount of 14084 Ls (20040 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**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Surplus company income tax payment	0			
Surplus VAT payment	13 297	82 657	18 920	117 610
VAT paid in advance on boarder	470	470	669	669
Surplus URN payment	222	924	316	1 315
Other debtors	3 106	20 000	4 419	28 457
Advance payment to the uzņēmuma ienākuma nodoklis	20 440		29 083	0
<i>In total other debtors</i>	<i>37 535</i>	<i>104 051</i>	<i>53 407</i>	<i>148 051</i>



**18. Expenditures of the next periods**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Insurance	7 210	208	10 259	296
Licence fees	637	1 993	906	2 836
Other	1703	0		
<i>In total expenditure of the next periods</i>	<i>9 550</i>	<i>2 201</i>	<i>11 165</i>	<i>3 132</i>

**19. Money and its equivalents**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Money in accounts	477 504	6 217	679 427	8 846
Money in cash	704	6 402	1 002	9 109
<i>In total other debtors</i>	<i>478 208</i>	<i>12 619</i>	<i>680 429</i>	<i>17 955</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:

	%	2008 LVL	2008 EUR
Shares of closed issue			
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	
Shares of public offering *	28	108 500	154 382
<b>Total:</b>	<b>100</b>	<b>387 136</b>	<b>462 748</b>
	31.12.2007	387136	550 845
	31.12.2008	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 2006- 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.

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Profit of the period of account	-62 674	409 126	-89 177	582 134
Number of shares 31.12.2008	387 136	387 136	550 845	550 845
<b>Basic profit per share per year</b>	<b>-0.16</b>	<b>1.06</b>	<b>-0.23</b>	<b>1.50</b>

## 21. Loans from credit institutions

	% rate in force	Atmaksas termiņš	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Long-term:						
A/s Swedbanka	6 mon.Euribor + 1.5%	1 year or more	3 969	51 763	5 647	73 652
A/s Swedbanka	3 mon.Euribor + 0.9-1.2%	1 year or more	632 790	781 837	900 379	1 112 454
A/s Nordea banka	3 mon.Euribor + 0.8%	1 year or more	1 021 298	1 152 452	1 453 176	1 639 791
			1 658 057	1 986 052	2 359 203	2 825 897
Short-term:						
A/s Swedbanka	3 mon.Rigibor + 1.3%;	up to 12 mon.	1 627 223	572 029	2 315 330	813 924
creditline	3 mon.Euribor + 1.3%					
A/s Nordea banka	3 mon.Euribor + 0.8%	up to 12 mon.	130 370	129 587	185 500	184 386
A/s Swedbanka	6 mon.Euribor + 1.5%	up to 12 mon.	47 794	50 640	68 005	72 054
A/s Swedbanka	3 mon.Euribor + 0.9-1.2%	up to 12 mon.	149 048	179 959	212 076	256 059

## 22. Liabilities of financial lease and other loans

	% rate in force	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Long-term:					
SIA Hanza lizings	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	393 990	642 671	560 597	914 438
SIA Nordea Lizings	6 mon. Libor +1.5-2.25%;6 mon. Euribor+1.2%	27 935	44 778	39 748	63 713
SIA Hanza lizings	3 mon. Rigibor+0.8-1.92%			0	0
		421 925	687 449	600 345	978 152
Short-term:					
SIA Hanza lizings	6 mon. Libor+1.9%;6 mon. Euribor+1.5%	208 638	251 464	296 865	357 801
SIA Nordea Lizings	6 mon. Libor+1.5-2.25%; 6 mon. Euribor+1.2%	27 681	75 060	39 387	106 801
SIA Hanza lizings	3 mon. Rigibor+0.8-1.92%			0	0
		236 319	326 524	336 252	464 602

**23. Taxes payable**

	31.12.2007	Paid in 2008	Calculated in 2008	31.12.2008
	LVL	LVL	LVL	LVL
Company Income Tax	35 706	79 360	23 214	(20 440)
VAT	(82 657)	314 490	383 850	(13 297)
VAT on the boarder	(470)	-	-	(470)
Peoples Income Tax	45 076	198 312	175 831	22 595
Compulsory Payments of Social Insurance Tax	17 882	307 811	305 282	15 353
Natural Resources Tax	150	150	-	-
Property Tax	928	11 586	10 667	9
URN	(924)	-	702	(222)
	EUR	EUR	EUR	EUR
Company Income Tax	50 805	112 919	33 031	(29 083)
VAT	(117 610)	447 479	546 169	(18 920)
VAT on the boarder	(669)	-	-	(669)
Peoples Income Tax	64 137	282 173	250 185	32 150
Compulsory Payments of Social Insurance Tax	25 444	437 976	434 377	21 845
Natural Resources Tax	213	213	-	-
Property Tax	1 320	16 485	15 178	13
URN	(1 315)	-	999	(316)

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**

	2008	2007	2008	2007
	LVL	LVL	EUR	EUR
Wages	28 813	125 912	40 997	179 157
Payments in private pension funds	2 138	1 573	3 042	2 238
Other	743	4 041	1 057	5 750
	31 694	131 526	45 096	187 145

**25. Accrued liabilities**

	2008	2007	2008	2007
	LVL	LVL	EUR	EUR
Accrued for holidays	48 022	61 140	68 329	86 994
	48 022	61 140	68 329	86 994

**26. Incomes from the next periods**

	2008 LVL	2007 LVL	2008 EUR	2007 EUR
Long-term:				
Project No. 124000041	57 199	68 452	81 387	97 398
Project No.04/415034/0002/023	24 930	29 918	35 472	42 569
	82 129	98 370	116 859	139 968
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, 2007 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	2007			0	125 014	177 879		
	2008				119 825	170 496		
OOO Saldus Ļes debt and sales of ready production	2007	56 875	80 926	472 420	672 193	693 982	987 447	
	2008	30 327	43 151	89 365	127 155	636 190	905 217	
SIA Pakuļu sporta bāze debt and sales of ready production	2007	3 786	5 387	17 000	24 189	54 000	76 835	
	2008	3 875	5 514	32 475	46 208	86 475	123 043	
SIA SEZ Laskana debt, dividends and sales of ready production	2007	2 222 165	3 161 856	25 164	35 805	75 288	107 125	
	2008	280 613	399 276	0	0	0	0	
SIA Saldus MRU debt, dividends and sales of ready production	2007	27 714	39 433	26 122	37 168	3 454	4 915	169 345
	2008	253 372	360 516	0	0	1 686	2 399	77 028
	2007	2 310 540	3 287 602	540 706	769 355	951 738	1 354 201	169 345
	2008	568 187	808 457	121 840	173 363	844 176	1 201 154	77 028
								240 956
								109 601





**SIA "KONSULTS"**

LZRA licence Nr.39

Cēsis LV 4100 Rīgas iela 4

Reģ.Nr. LV 44103010249

## **INDEPENDENT AUDITORS' REPORT**

**To the Shareholders of SALDUS MEŽRŪNIECĪBA JSC**

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

We have audited the accompanying financial statements of SALDUS MEŽRŪNIECĪBA JSC which comprise the balance sheet as of 31 December 2008 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 MEŽRŪNIECĪBA 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.

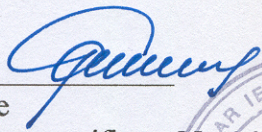
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

*In our opinion, the financial statement presents fairly, in all material respects the financial position of the SALDUS MEŽRŪNIECĪBA JSC as of December 31, 2008, and of the results of its financial performance and cash flows for the year 2008 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 2008 and have not disclosed any material discrepancies between the financial information presented in the management report and the financial statement for the year 2008.

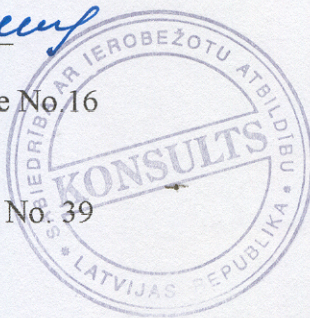
  
G. Jaunzeme

Sworn auditor, certificate No. 16

Member of the Board

"KONSULTS" Ltd

Audit Company Licence No. 39



Cesis

30.04.2009.