

Stock company

BALOZI

Annual Report

For the period
1 October 2007 – 30 September 2008



Contents

	Page
Information on the Company	3
Management report	4
Statement of management responsibility	6
Profit and loss statement	7
Balance sheet	8
Statement of Cash Flows	10
Statement of Changes to the Shareholders' Equity	11
Notes to the financial statements	12
Auditor's Report	24

Information on the Company

Name of Company	<i>Stock company Baloži</i>
Legal status	<i>Stock company</i>
Number, place and date of registration	<i>40003009514, Riga, 27.07.1994 Registration in the Commercial Register on 16.01.2004</i>
Legal and mailing address	<i>Rīgas iela 30, Baloži, Rīga dstr., LV-2112</i>
Full name of shareholders and shareholding share in %	<i>PINDSTRUP MOSEBRUG AS – 49.43%, Pindstrup DK-8550 Ryomgard, Denmark (Representatives of the shareholder are in the Board and Council) JL INDEX SIA – 6.62 % Zdeneks Buholcs – 5.63 %, Kalnu iela 34, Baloži, Rīga district (Board member) Kristīne Brambe – 5,29% (Council member) State Social Insurance Agency – 5,03%, Lāčplēša iela 70 A, Rīga No one of the rest of the shareholders holds more than 5% of the total number of shares.</i>
Chairman of the Council	<i>Hans HENNEBERG</i>
Council Members	<i>Henning DEGN Niels SOE Kristīne BRAMBE (from 19.12.2008) Ilmars Brālis</i>
Chairman of the Board of Directors	<i>Lykke LARSEN</i>
Members of the Board of Directors	<i>Vitālijs SMAGINS Vitālijs SMAGINS Zdeneks BUHOLCS</i>
Reporting period	<i>1 October 2007 – 30 September 2008</i>
Auditor	<i>SIA “Biznesa un audita centrs” Reg. Nr. 40003788578 Sworn auditors commercial company's license Nr.138 Bīķernieku Street 63-15, Rīga, LV 1039 Sanita Dambe Sworn Auditor Certificate No.160</i>

Management Report

General information

Joint Stock Company “Baloži” was established as the result of privatization of State Joint Stock Company “Baloži”. Basic activity of the company is turf extraction and sales.

The fixed capital of the company consists of 283475 shares. Nominal value of one share is 1 LVL. All shares are name shares and are produced in a dematerialized form. All shares give equal rights for reception of dividends, reception of liquidation quota and voting rights in shareholder meeting. All shares are included in the public market and are quoted in Riga Stock Exchange, second list. A Shareholder may freely alienate his shares.

Persons, who own significant co-participation in the capital enterprise that has been acquired in a direct or indirect manner (5 and more percent of the fixed capital of the company):

“Pindstrup Mosebrug” JSC	49,43%
JL INDEX LTD	6,62%
Zdeneks Buholcs	5,63%
Kristīne Brambe	5,29%
State Social Insurance Agency	5,03%

JSC Baloži does not have any shareholders which would have any special controlling rights.

JSC Baloži does not have a particular way how the voting rights deriving from employee shares would be used if they are not used by the employees themselves.

JSC Baloži does not have established restrictions to voting rights in cases when maximum amount of voting rights is established irrespective of the number of the owned shares with voting rights, shareholder rights to a part of profit which is not associated with the part of shares they proportionally own, and other similar restrictions.

JSC Baloži does not have known shareholder agreements that could cause restrictions for transfer of shares of voting rights of the shareholders to other persons, also conditions which foresee prior approval of such transfer.

Members of the Board of JSC Baloži are elected by the Council. The Board of the company consists of three members of the board which represent the company separately. Chairman of the Board is assigned by the Council from the members of the board. The term of capacity of the board is 3 (three) years. Amount of remuneration of the members of the board is established by the council.

Decisions about making of amendments to the Statues of the Company, changes in capital, reorganization of the company and termination of activities or continuation thereof is made if not less than three quarters of the votes of the present shareholders with voting rights are in the favour of such decision.

Authorities of the members of the board are specified in the Statutes of the Company. Special authorities to emit or buy out shares have not been set for the members of the board.

Financial results of activities

In the reporting year the company performed works on Lauga marsh adoption in Riga Region Inčukalns Parish.

In the reporting year the economic activities of the Company have resulted in the loss in the amount of 34 563 LVL. It can be explained with the fact that in the reporting period writing-off of the non-liquid accruals was performed. Writing-off of accruals was necessary because turf buyer LTD “EKO Siltums” did not fulfil its obligations agreed in the contract but JSC Baloži, for fulfilment of the contract, had made turf which later due to its long staling could not be sold.

Net turnover, compared to the previous year increased in the company and reached 383 999 LVL, which can be explained by increase of price of the products made by the company as well as with slight increase of the sold volumes. Profit per one share in the reporting year is -0.1219, which can be explained with losses in the reporting year. The liquidity indicator of the company is 2.823, which indicated to the fact that the company has no problems in effecting settlements with creditors.

Development plans and investigation works

JSC Baloži plans to keep working in the field of turf extraction, optimizing turf extraction processes and to realize the planned turf extraction volumes. In the next reporting year narrow-gauge railway in Lauga marsh will be launched which will relieve the process of turf extraction. In the next reporting year the company plans to significantly increase extraction of milled turf, thus almost abandoning extraction of chunk turf.

It is also planned to continue renting of the production building to other companies in future.

Events after the end of the reporting year

In the period between the last day of the reporting year and the day when the board is signing the annual report there have been no significant events or extraordinary conditions that would influence the annual results and financial condition of the company.

Other information

The company does not have subsidiaries or representations abroad.

Management proposes to cover losses of the reporting year from the profit of the next periods.

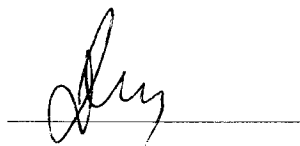
November 25, 2008



Lykke LARSEN
Chairman of the Board



Vitālijs SMAGINS
Member of the Board



Zdeneks BUHOLCS
Member of the Board

The annual report has been approved in the shareholders' meeting on _____

Chairman of the meeting

Stock company Baloži
Annual Report for the period 1 October 2007 -30 September 2008

Statement of management responsibility

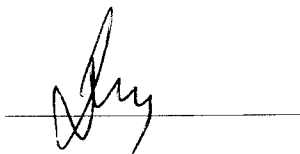
JSC Baloži management confirms that JSC Baloži annual report for the year ending 30 September 2008 is prepared in compliance with laws applicable in the Republic of Latvia and provides a true and fair view on the Company's assets, liabilities and financial position and profit and that the management report gives a true on the Company's business development and results of operations.

November 25, 2008



Lykke LARSEN
Chairman of the Board

Vitālijs SMAGINS
Member of the Board



Zdeneks BUHOLCS
Member of the Board

Profit and loss statement for the year ended 30 September 2008

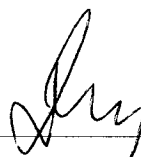
	Note	01.10.2007- 30.09.2008 LVL	01.10.2006 - 30.09.2007 LVL
Net sales	2	383 999	301 683
Cost of goods sold	3	(242 593)	(212 799)
Gross profit		141 406	88 884
Selling expenses	4	(20 857)	(14 078)
Administrative expenses	5	(80 134)	(82 361)
Other operating income	6	100 103	106 736
Other operating expenses	7	(152 787)	(61 353)
Interest and similar income		1 216	1 051
Interest and similar expenses		(4 388)	(3 533)
Profit before taxes		(15 441)	35 346
Profits tax	8	(8 366)	-
Deferred tax		15	
Other taxes	9	(10 771)	(13 470)
Profit of the reporting year		(34 563)	21 876
Basic earnings per share	18	(0,1219)	0,077

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.



Lykke LARSEN
Chairman of the Board of
Directors

Vitālijs SMAGINS
Board member



Zdeneks BUHOLCS
Board member

25 November, 2008

Balance Sheet as at 30 September 2008

Assets	Note	30.09.2008 LVL	30.09.2007 LVL
Long term investments			
Intangible assets			
Other intangible assets	10	861	1 121
Total intangible assets		861	1 121
Fixed assets			
Land and buildings		169 992	135 927
Long term investments in leased fixed assets		22 663	23 693
Equipment and machinery		153 269	184 005
Other fixed assets		13 124	15 610
Construction in progress		74 413	86 854
Total fixed assets		433 461	446 089
Investment property	11	34 999	38 955
Total non-current assets		469 321	486 165
Current assets			
Stock			
Raw materials		8 362	8 191
Work in progress	12	-	115 520
Finished goods and goods for sale	13	296 279	194 072
Prepayments for goods		1 427	468
Total stock		306 068	318 251
Receivables			
Trade receivables	14	100 141	42 248
Other receivables	15	2 751	18 520
Prepaid expenses	16	4 865	1 155
Total receivables		107 757	61 923
Cash	17	43 109	61 673
Total current assets		456 934	441 847
Total assets		926 255	928 012

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.

Balance Sheet as at 30 September 2008

Shareholders' equity and liabilities	Note	30.09.2008 LVL	30.09.2007 LVL
Shareholders' equity			
Share capital	18	283 475	283 475
Other reserves	19	424 884	420 810
Retained earnings:			
retained earnings of the reporting year		(34 563)	21 876
Total shareholders' equity		673 796	726 161
Provisions			
Other provisions	20	22 318	17 643
Total provisions		22 318	17 643
Liabilities			
Long term liabilities			
Deffered tax liability	21	28 396	10 609
Other loans	22	40 666	54 127
Total long term liabilities		69 062	64 736
Short term liabilities			
Other loans	22	13 933	14 048
Customer advances		211	248
Trade and other payables		118 447	86 882
Taxes and social contributions	24	20 225	12 088
Deferred income	23	-	-
Other liabilities		8 263	6 206
Total short term liabilities		161 079	119 472
Total liabilities		230 141	184 208
Total shareholders' equity and liabilities		926 255	928 012

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.



Lykke LARSEN
Chairman of the Board of
Directors

Vitālijs SMAGINS
Board member




Zdeneks BUHOLCS
Board member


25 November, 2008

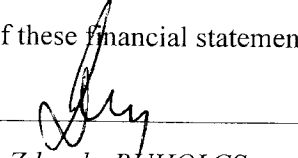
Statement of cash flows for the year ended 30 September 2008

	Note	01.10.2007- 30.09.2008 LVL	01.10.2006 - 30.09.2007 LVL
Cash flows from operating activities			
1. Profit or loss before profits tax		(15 441)	21 876
Adjustments for:			
depreciation;		47 608	37 643
write-off of intangible assets;		260	204
long term investments in leased fixed assets		1 030	-
Interest and similar income		(1 216)	-
provisions		4 675	(994)
result of disposal of fixed assets;		(1 500)	(4 646)
Interest and similar expenses		4 388	-
2. Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		39 804	54 083
Adjustments for:			
increase of stock;		12 183	(21 736)
decrease of receivables;		(61 194)	62 233
increase of accounts payable to suppliers, contractors and other creditors		52 250	17 310
3. Gross cash flows from operating activities		43 043	111 890
4. Corporate income tax		(3 533)	(23 718)
5. Real estate tax		(10 771)	-
6. Interest and similar expenses		(4 389)	-
<i>Net cash provided by (used in) operating activities</i>		24 350	88 172
Cash flows from investing activities			
Income from disposal of fixed assets		1 500	4 651
Paid for purchase of fixed assets		(32 054)	(75 381)
Interest and similar income		1 216	-
<i>Net cash flows used in investing activities</i>		(29 338)	(70 730)
Cash flows from financing activities			
Finance lease payments		(13 576)	(24 454)
<i>Net cash flows used in financing activities</i>		(13 576)	(24 454)
Net increase/(decrease) of cash and cash equivalents		(18 564)	(7 012)
Cash and cash equivalents at the beginning of the year		61 673	68 685
Cash and cash equivalents at the end of year	17	43 109	61 673

The accompanying notes on pages 10 to 24 form an integral part of these financial statements.


Lykke LARSEN
Chairman of the Board of
Directors


Vitālijs SMAGINS
Board member


Zdeneks BUHOLCS
Board member

25 November, 2008

Statement of changes in shareholders' equity for the year ended 30 September 2008

	Share capital LVL	Other reserves LVL	Retained earnings of the reporting year LVL	Total share- holders' equity LVL
30 September 2006	283 475	349 653	71 157	704 285
Profit of 2006 transferred to reserves	-	71 157	(71 157)	-
Retained earnings of the reporting year	-	-	21 876	21 876
30 September 2007	283 475	420 810	21 876	726 161
Profit of 2007.transferred to reserves	-	21 876	(21 876)	-
	-	(17 802)	-	(17 802)
Retained earnings of the reporting year	-	-	(34 563)	(34 563)
30 September 2008	283 475	424 884	(34 563)	673 796

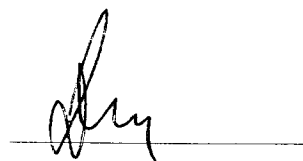
- A mistake made in the previous reporting period was determined during the analysis of the reporting period. In the annual report for the period from 01.10.2006 – 30.09.2007 the deferred corporate income tax (CIT) expenses in the amount of 17 802 LVL have not been recognized. If the aforementioned expenses would have been recognized, the profit of the company would have decreased from 21 876 LVL to 4 074 LVL and the deferred CIT would increase from 10 609 LVL to 28 411 LVL.

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.



Lykke LARSEN
Chairman of the Board of
Directors

Vitālijs SMAGINS
Board member



Zdeneks BUHOLCS
Board member

25 November, 2008

Notes to the financial statements

(1) Summary of significant accounting principles

Information on the Company's activities

The stock company's Baloži legal and mailing address is Riga district, Baloži, Rigas iela 30. The Company is mainly engaged in peat extraction and sales.

Basis for the preparation

The financial statements have been prepared in accordance with the laws "On Accounting" and "On Annual Reports of Enterprises", and Latvian accounting standards applicable according to the requirements of the Cabinet of Ministers. The profit and loss statement was prepared according to the turnover costing method. The cash flow statement was prepared according to the indirect method.

Accounting principles

The financial statements were prepared in accordance with the following policies:

- a) Going concern assumption that the Company will continue as a going concern.
- b) Consistent valuation principles with those used in the prior year.
- c) Items were valued in accordance with the principle of conservatism, i.e.:
 - the financial statements reflect only the profit generated to the date of the balance sheet;
 - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the financial statements; and,
 - All impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
- d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses were matched with revenue for the reporting period.
- e) Assets and liabilities items have been valued separately.
- f) The opening balance agrees with the prior year closing balance.
- g) All material items, which would influence the decision-making process of users of the financial statements, have been recognized and insignificant items have been combined and their details disclosed in the notes.
- h) Business transactions are recorded taking into account their economic contents and substance, not the legal form.

Financial instruments

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If according to management, the fair value of an asset or liability is significantly different from the book value, fair value disclosures are made in the notes to the financial statements.

Derivative financial instruments

The Company may have embedded derivatives in customer supply contracts. The Company does not separate fair value of any embedded derivatives and accounts for such contracts based on the accounting principles described in these notes.

Notes to the financial statements

Financial risk management

Credit risk

The Company transacts with customers having an appropriate credit rating.

Currency risk

Due to the current structure of the financial assets and liabilities denominated in foreign currencies, the currency risk is not material.

Interest rate risk

The interest rate risk arises from loans with floating interest rates. Management believes that derivative financial instruments should not be used for hedging the existing currency risks.

Currency unit and revaluation of foreign currency

All amounts in these financial statements are expressed in the Latvian national currency – lats (LVL).

All monetary asset and liability items were revalued in lats according to the exchange rate of the Bank of Latvia on the last day of the reporting year. All non-monetary items of assets and liabilities, and foreign exchange transactions are revalued to lats in accordance with the exchange rate set by the Bank of Latvia on the transaction date.

	30 September 2008	30 September 2007
EUR	0.702804	0.702804

Profit or loss arising from the fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the profit and loss statement in the respective period in which the fluctuation occurs.

Revenue recognition

Goods sold and services rendered

Revenue from sales of goods is recognized in the profit and loss statement after the risks and rewards of ownership are transferred to the customer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction on the balance sheet date. The stage of completion is assessed based on costs of performed works. No revenue is recognized when there is doubt that costs of services will be covered or goods will be returned.

Rental income

Rental income is recognized in income on a straight line basis over the rental term.

Long and short term classification

Amounts whose terms of receipt, payment or write off are due more than one year after the balance sheet date is classified as long term. Amounts to be received, paid or written off within twelve months of the balance sheet date are classified as short term.

Amortization and depreciation

Intangible assets and fixed assets are recognized at historical cost, less accumulated amortization and depreciation. Amortization and depreciation is calculated from the first day of the month following their putting to operation and until the first day of the month following their disposal. Amortization and depreciation is calculated on the straight-line basis and written-off over the useful lives of the assets applying the following annual rates set by management:

Notes to the financial statements

Intangible assets:

Software programs	20%
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Fixed assets:

Buildings and constructions	5.5%
Equipment and machinery	
New technological equipment	10%
Used technological equipment	16.7%
Other fixed assets	20%

Investment property

Investment property are buildings or parts of them that the Company holds as an owner in order to obtain a rental fee rather than held for production, providing services, administrative purposes or sale within the course of ordinary business operations. Initially the Company measures investment property at cost. Subsequent to initial recognition, the Company uses the cost model as the basis of accounting.

Valuation of stock

Stock is accounted at effective cost. Stock is recognized at the lower of market price or cost. If necessary, obsolete, slow-moving or damaged stock is written off or provisions recognized for the value of such stock. Work in progress is evaluated based on the costs necessary to completion the work and comparing the result with the market price or recoverable amount of the order. Stock has been counted during the annual stock take.

Valuation of receivables

Allowances for doubtful debts are recognized based on management opinion, following the analysis of the recoverability of each receivable.

Provisions

Provisions are recognized in order to cover certain losses, liabilities or costs relating to the reporting period or previous periods which are expected or certain on the balance sheet date, but the amount or date of occurrence or settlement of which is not certain.

As at the year end, a provision for unused vacations has been recognized in accordance with the number of vacation days unused as at September 30, 2008 and the average remuneration during the last six months of the reporting year.

Corporate income tax

Profits tax comprises current and deferred tax. Profits tax is recognized in the profit and loss statement.

Current tax

Current profits tax is calculated in accordance with the law "On Corporate Income Tax" by setting the amount of taxable income and applying a tax rate of 15% for 2008.

Deferred tax

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. These differences have primarily occurred due to different depreciation rates used for fixed assets in tax accounting and financial accounting, recognized provisions and tax losses available to be carried forward according to the tax declaration. Deferred tax is calculated based on the statutory rate of 15%. A deferred tax asset is recognized only when recovery is certain.

Notes to the financial statements

(2) Net sales

Net sales represents revenue generated during the reporting period from the Company's basic activities – sales of goods, net of value added tax and discounts.

Type of activity	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Peat for agricultural needs	314 977	212 663
Mechanical engineering products, services	33 415	25 734
Fire chunk peat	31 007	28 286
Milled peat for granules	4 600	35 000
	383 999	301 683

Net sales by geographic markets:

	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Latvia	383 999	301 428
Lithuania	-	255
	383 999	301 683

(3) Cost of goods sold

The item represents costs incurred for generating sales.

	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Personnel costs	152 496	146 434
Cost of materials	51 415	40 320
Depreciation	36 962	27 733
Changes to the stock of finished goods	(105 784)	42 826
Changes in work in progress	115 428	(56 344)
Costs of self -constructed fixed assets	-	(29 089)
Other external costs	71 831	40 919
Provisions for finished goods	3 577	-
	(83 332)	-
	242 593	212 799

(4) Selling expenses

	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Transport	8 734	3 859
Personnel costs	8 800	7 689
Depreciation	3 323	2 530
	20 857	14 078

Notes to the financial statements

(5) Administrative expenses

	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Personnel costs	57 863	50 338
Depreciation	2 951	2 968
Other administrative expenses	19 320	31 505
Provision for and cost of employees bonuses	-	(2 450)
	<u>80 134</u>	<u>82 361</u>

(6) Other operating income

	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Rental costs	82 060	63 221
Income from communal services	15 912	20 786
Disposals of current assets	-	1 123
Changes in doubtful debt allowances	608	6 472
Changes in provisions for finished goods	-	8 308
Proceeds from sale of fixed assets	1 500	4 651
Other income	23	2 175
	<u>100 103</u>	<u>106 736</u>

(7) Other operating expenses

	01.10.2007- 30.09.2008	01.10.2006 – 30.09.2007
	LVL	LVL
Non-amortized part of the disposed fixed assets	-	5
Costs of public utility services	43 219	35 319
Doubtful debt allowance	2 363	921
Depreciation	4 632	4 616
Compensation for health damage	2 203	1 312
Rental costs of premises	116	197
Personnel costs	1 773	2 513
Other expenses	98 481	16 470
	<u>152 787</u>	<u>61 353</u>

Notes to the financial statements

(8) Profits tax for the reporting year

	01.10.2007- 30.09.2008	01.10.2006 - 30.09.2007
	LVL	LVL
Current tax	8 366	-
Deferred tax	-	-
	<u>8 366</u>	<u>-</u>
Profit before taxes	(15 441)	35 346
Theoretical income tax according to 15% rate	-	5 302
Income/cost impact which is not significant for tax purposes	89 764	(3 281)
Property tax impact	(10 771)	(2 021)
	<u>(7 777)</u>	<u>-</u>
Tax expenses	<u>8 366.25</u>	<u>-</u>

Deferred corporate income tax

	01.10.2007- 30.09.2008	01.10.2006- 30.09.2007
The remaining value of fixed assets in financial bookkeeping	372 246	375 618
The remaining value of fixed assets for tax needs	(160 624)	(160 790)
Accruals for vacations	(22 318)	(17 643)
CIT losses transferred for the future taxation periods	-	(7 777)
Total temporary differences	<u>189 304</u>	<u>189 408</u>
Foreseen tax rate	15 %	15 %
Deferred corporate income tax	<u>28 396</u>	<u>28 411</u>
Net deferred tax liabilities	<u>28 396</u>	<u>28 411</u>
Deferred CIT in the previous year's report	28 411	10 609
Deferred CIT changes	<u>(15)</u>	<u>17 02</u>

(9) Other taxes

	01.10.2007- 30.09.2008	01.10.2006 - 30.09.2007
	LVL	LVL
Real estate tax on land	1 684	1 458
Real estate tax on buildings and constructions	9 087	12 012
	<u>10 771</u>	<u>13 70</u>

(10) Intangible assets

	Software LVL
Historical cost	
30 September 2007	2 102
Additions	-
30 September 2008	2 102
Depreciation	
30 September 2007	981
Charge for the period	260
30 September 2008	1 241
Balance at 30 September 2007	<u>1 121</u>
Balance at 30 September 2008	<u>861</u>

Notes to the financial statements

(11) Fixed assets

	Land LVL	Buildings LVL	Long term invest- ments in lease fixed assets LVL	Equipment and machinery LVL	Other fixed assets LVL	Cons- truction in progress LVL	Pre- payments for fixed assets LVL	Total LVL
Historikal cost								
30.09.2007	78 800	181 753	23 693	393 460	28 896	86 854	-	793 456
Additions	-	-	-	-	364	31 690	-	32 054
Reclassified	-	44 131	-	-	-	(44 131)	-	-
Reclassified to investment property	-	(606)	-	-	-	-	-	(606)
Disposed	-	-	-	(1 280)	(1 806)	-	-	(3 086)
	-	-	(1 030)	-	-	-	-	(1 030)
30.09.2008	78 800	225 278	22 663	392 180	27 454	74 413	-	820 788
Depreciation								
30.09.2007	-	107 172	-	209 455	13 286	-	-	329 913
Charge for the period	-	9 494	-	30 736	2 850	-	-	43 080
Depreciation on disposals	-	-	-	(1 280)	(1 806)	-	-	(3 086)
Reclassified to investment property	-	(34)	-	-	-	-	-	(34)
30.09.2008	-	116 632	-	238 911	14 330	-	-	369 873
Provision on								
30.09.2007	-	17 454	-	-	-	-	-	17 454
Increase of provisions	-	-	-	-	-	-	-	-
Provisions on								
30.09.2008	-	17 454	-	-	-	-	-	17 454
Balance at 30.09.2007	78 800	57 127	23 693	184 005	15 610	86 854	-	446 089
Balance at 30.09.2008	78 800	91 192	22 663	153 269	13 124	74 413	-	433 461

Accrual reflects reduction of the value of separate buildings that are not used in economic activities.
The cadastre value of the land parcels owned by the company is 1 874 632 LVL.
The cadastre value of the buildings owned by the company is 737 115 LVL.
In the reporting period the company has not acquired fixed assets under conditions of leasing.

Notes to the financial statements

Movements in investment property

As of 1 October 2006, the Company classifies rented long-term investments under investment property.

	Investment Property
Historical costs	
30.09.2007	142 762
Reclassified from fixed assets	606
30.09.2008	143 368
Depreciation 30.09.2007	103 807
Reclassified from fixed assets	34
Charge for the period	4 528
30.09.2008	108 369
Balance at 30.09.2007	<u>38 955</u>
Balance at 30.09.2008	<u>34 999</u>

(12) Work in progress

	30.09.2008	30.09.2007
	LVL	LVL
Work in progress	-	130 552
Impairment allowance	-	(15 032)
	<u>-</u>	<u>115 520</u>

(13) Finished goods and goods for sale

	30.09.2008	30.09.2007
	LVL	LVL
Finished goods and goods for sale	299 856	194 072
Allowance for finished goods	(3 577)	-
	<u>296 279</u>	<u>194 072</u>

(14) Trade accounts receivable

Trade accounts receivable are disclosed at net value in lats, less doubtful debts allowances.

	30.09.2008	30.09.2007
	LVL	LVL
Trade receivables, book value	104 083	45 614
Allowance for doubtful debts	(3 942)	(3 366)
	<u>100 141</u>	<u>42 248</u>

(15) Other receivables

	30.09.2008	30.09.2007
	LVL	LVL
Overpaid taxes	126	14 293
Other	2 625	4 227
	<u>2 751</u>	<u>18 520</u>

Notes to the financial statements

(16) Prepaid expenses

	30.09.2008	30.09.2007
	LVL	LVL
Insurance	1 668	979
Other	3 197	176
	<u>4 865</u>	<u>1 155</u>

(17) Cash

	30.09.2008	30.09.2007
	LVL	LVL
Bank account cash	41 890	60 447
Enterprise cash	1 219	1 226
	<u>43 109</u>	<u>61 673</u>

Division of cash into currency

	30.09.2008		30.09.2007	
	Currency	LVL	Currency	LVL
<i>LVL</i>	41 816	41 816	58 713	58 713
<i>EUR</i>	1 840	1 293	4 212	2 960
		<u>43 109</u>		<u>61 673</u>

(18) Share capital

A/S Baloži is listed in Riga Stock Exchange in the Secondary list. The share capital of the Company is constituted from shareholders' investments. The number of shares is 283, 475, and the nominal value of one share is 1 Lat.

	30.09.2008	30.09.2007
	LVL	LVL
Ordinary shares with voting rights	283 475	283 475
	<u>283 475</u>	<u>283 475</u>

Earnings per share

The basic earnings per share are calculated by dividing the profit of the reporting year with the average weighted number of shares per year.

	30.09.2008	30.09.2007
Profit of the period	(34 563)	21 876
The average weighted number of ordinary shares per year	283 475	283 475
Earnings per share	<u>(0,1219)</u>	<u>0,077</u>

Notes to the financial statements

(19) Other reserves

Other reserves consist of the profit of previous years, which was transferred to reserves based on the decision by the shareholders' meeting.

(20) Other provisions

The item represents provisions for unused holidays and bonuses.

(21) Deferred tax liability

The item represents provisions for deferred income tax.

(22) Other loans

Other loans reflect financial lease liabilities for three agreements. The outstanding balance as at 30 September 2008 includes the lease principal amounting to 46 270 LVL and value added tax amounting to 8 329 LVL. The total value of the object under lease at the date of acquisition amounted to 69 627 LVL (less value added tax). Terms of lease agreements are: 15 May 2011, 15 April 2012 and 28 April 2012. Interest is calculated from book value and it is comprised of the fixed part amounting to 2.2% and flexible part which is defined by 3 months RIGIBOR or 3 months LIBOR, and from the fixed part amounting to 1,750 % and flexible part which is defined in accordance with 3 months EURIBORS.

(23) Taxes and social contributions

Type of tax	Balance at September 30, 2007 LVL	Calculated in 01.10.2007 30.09.2008 LVL	Paid in 01.10.2007 30.09.2008 LVL	Deleted from overpaid corporate income tax 01.10.2007 30.09.2008 LVL	Balance at September 30, 2008 LVL
Profits tax	(14 157)			12 954	
		8 366	(3 533)		3 630
Value added tax	3 966	52 125	(45 701)	(1 976)	8 414
Social contributions	4 611	61 404	(54 229)	(6 641)	5 145
Resident income tax	2 835	35 868	(31 616)	(4 337)	2 750
Nature resource tax	676	1 282	(1 672)	-	286
Real property tax	(136)	10 771	(10 762)	-	(126)
	(2 205)	169 817	(147 513)	-	20 099
Including:					
Overpaid tax	(14 293)				(126)
Tax liability	12 088				20 225

Notes to the financial statements

(24) Average number of employees

Average number of employees per year	30.09.2008 39	30.09.2007 42
--------------------------------------	-------------------------	-------------------------

Personnel costs

	01.10.2007- 30.09.2008	01.10.2006 - 30.09.2007
	LVL	LVL
Salaries	196 475	183 704
Social security costs	41 433	38 024
	237 908	221 728

In the composition of fixed assets in the reporting year salary was capitalized in the amount of 13 023 lats and state social insurance payments – in the amount of 2 755 lats.

Salaries in the amount of 965 lats and state social insurance payments in the amount of 233 lats have been attributed to the expenses of future periods.

Including: Information on remuneration to Council members, Board members and management

	01.10.2007- 30.09.2008	01.10.2006- 30.09.2007
	LVL	LVL
Remuneration to Council members		
Remuneration for functions	4 781	2 220
State social contributions	1 152	535
	5 933	2 755
Remuneration to Board members		
Remuneration for functions	1 800	1 350
State social contributions	434	325
	2 234	1 675
Remuneration to management		
Remuneration for performance of functions	19 656	18 299
State social insurance contributions	4 735	4 408
	24 391	22 707

(25) Information on the participation of Council and Board members in the management of other companies registered in the Commercial Register

Chairman of the Council	Hans Henneberg	SIA TSG Chairman of the Board of Directors, SIA MHK Board member
Council member	Henning Degn	-
Council member	Niels Soe	-
Council member	Kristīne Brambe	SIA KIB Chairman of the Board
Council member	Ilmars Brālis	SIA Baložu saimnieks of the Board Member
Chairman of the Board	Lykke Larsen	-
Board member	Vitālijs Smagins	-

Notes to the financial statements

(26) Information on the lease and rent agreements with significant impact on the Company's activities

According to the status as at 30 September 2008, the stock company Baloži leased production premises together with the rights to use land to the company SIA Pindstrup Latvija. The total area was 3,432 m². The period of premises lease agreement is until September 24, 2019.

On 11 July 2006, a lease agreement was signed on the lease of peat fields in Riga district Olaine and Ķekava rural parishes with the Riga municipal agency "Rīgas meža aģentūra" (Riga Forest Agency), which is in force until 11 July 2011. According to the provisions of the agreement, the recultivation plan of used peat extraction fields has been developed. However, according to the Company's management, at the year-end it is not possible to reasonably assess the total costs of works, which the Company will have to perform according to the recultivation plan in the period from 2009 to 2011. The management is not aware of the impact the financial statements. Management believes that provisions for costs of peat bogs recultivation were not recognized as at 30 September 2008 because such provisions could not be reasonably estimated.

On 10 March 2006, a/s "Baloži" signed a land rent agreement with VAS "Latvijas valsts meži" on the lease of Lauga bog. This land rent agreement is concluded on 25 years and is in effect until 10 March 2031. According to this agreement, the Company is obliged at its own expense and directly after extraction of peat to perform all such activities in the Land plot that are required for site re-naturalization or perform a recultivation of damaged soil within one year of completing the use of land. Management is not aware of liabilities in respect of this agreement and is unable to provide a reasonable estimate of the costs of total works to be performed by the Company. Provisions have not been recognized as at 30 September 2007 as the amount of such provisions is not reasonably estimable.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Baloži AS

Report on the Financial Statements

We have audited the accompanying financial statements on pages 7 to 23 of Baloži AS ("the Company") which comprise the balance sheet as of 30 September 2008 and the income statement for the period 01.10.2007.- 30.09.2008., statement of changes in equity and cash flow statement and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Latvian Association of certified auditors. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note 26 to the financial statements, the Company has prepared a peat bog remediation project study in accordance with the conditions of an agreement with the Riga Municipal Agency "Riga's Forest Agency" dated 11 July 2006. In addition, the Company has concluded a peat bog rent agreement for 25 years with AS Latvijas Valsts Meži (Latvian State Forestry Company) dated 10 March 2006 according to which the Company should perform renaturalization or remediation of the peat bog after extraction work is completed. Management believes it is not possible to estimate the total cost of work to be performed under the plan prepared for the Riga Municipal Agency "Riga's Forest Agency" nor to be specific as to the type of work required from the agreement with AS Latvijas Valsts Meži and therefore the associated costs. No provisions have been recognized as at 30 September 2008 for the renaturalization or remediation of the peat bogs.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary in respect of the matter referred to in the Basis for Qualified Opinion, the accompanying financial statements give a true and fair view of the financial position of Baloži AS for the period from 1 October 2007 till 30 September 2008, and of its financial performance and its cash flows for the period 01.10.2007- 30.09.2008 in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Accentuation of circumstances.

We are paying your attention to the fact mentioned in the management report that writing off of the non – liquid accruals was performed in the reporting year in the amount of 63 500 LVL. Accruals for execution of the contract were made from year 2004 through 2007. In this period the company had not made accruals for possible quality losses. On September 30, 2008 it is not possible to credibly estimate how making of accruals for non –liquid accruals would have influenced the results for the previous reporting years, thus accrual losses were recognized in the reporting period.

Report on the Management Report

We have read the Management Report set out on pages 4 and 5 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for the period from 01.10.2007- 30.09.2008.

Biznesa un audita centrs SIA
Certified auditors' company
Audit company license No.138

Sanita Dambe
Certified auditor
Certificate No.160
Member of the Board

Riga, Latvia
November 25, 2008

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.