

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

(REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF THE YEAR 2008**

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

**Saldus, 2008**

## CONTENT

<b>Council of joint-stock company „Saldus mežrūpniecība”</b>	<b>3</b>
<b>Board of joint-stock company „Saldus mežrūpniecība”</b>	<b>3</b>
<b>Consolidated profit-loss statement</b>	<b>4</b>
<b>Consolidated balance-sheet</b>	<b>5</b>
<b>Consolidated balance-sheet (continuation)</b>	<b>6</b>
<b>Consolidated cash flow statement</b>	<b>7</b>
<b>Consolidated statement about changes in own capital</b>	<b>8</b>
<b>Annex to financial statements</b>	<b>9</b>
<b>Consolidated Management Report</b>	<b>19</b>

## **Council of joint-stock “Saldus mežrūpniecība”**

Chairman of the council:

Uldis Mierkalns

Vice-chairman of the council:

Lolita Burkovska

Members of the council:

Vēsmiņš Gunvaldis

Lauris Leja

Jānis Leimanis

On the basis of the decision No. 1 on July 3, 2008 made by shareholders during the extraordinary meeting of shareholders, there were made changes in the structure of the board of the holding. Starting from July 3, 2008 the chairman of the board is Uldis Mierkalns, the vice-chairwoman of the board is Lolita Burkovska. The members of the board were elected Lauris Leja and Jānis Leimanis. Of the responsibility of the chairman of the board was relieved Alvis Spārns, of the responsibilities of the vice-chairwoman of the board was relieved Gunta Zoltnere and of the responsibilities of the members of the board were relieved Edgars Gailītis and Māris Elleris about what in the Enterprise Register of the Republic of Latvia in accordance with the decision No. 6-12100614/1 on August 7, 2008 were made corresponding entries.

## **Board of joint-stock company “Saldus mežrūpniecība”**

Director of the board:

Jānis Bertrāns

Members of the board:

Ivars Feikners

Gundars Maurs

Jānis Mierkalns

On the basis of the decision No. 1 on July 3, 2008 made by shareholders during the extraordinary meeting of shareholders, there were made changes in the structure of the board of directors of the holding. Starting from July 3, 2008 of the responsibilities of the member of the board of directors was relieved Gatis Zommers and as a member of the board of directors was appointed Jānis Mierkalns about what in the Enterprise Register of the Republic of Latvia in accordance with the decision No. 6-12100614/1 on August 7, 2008 were made corresponding entries.

## Consolidated profit - loss calculation

		30.06.2008	30.06.2007	31.03.2008	0.702804 31.03.2007
Note	Ls	Ls	EUR	EUR	
Net turnover		5 216 707	6 447 629	7 422 705	9 174 150
Production costs of sold products		(5 104 201)	(5 648 095)	(7 262 624)	(8 036 515)
<b>Gross profit</b>		<b>112 506</b>	<b>799 534</b>	<b>160 082</b>	<b>1 137 634</b>
Selling costs		(55 666)	(32 514)	(79 206)	(46 263)
General and administration costs		(205 736)	(188 429)	(292 736)	(268 110)
Other income from economic activity		18 407	89 192	26 191	126 909
Other expenses from economic activity		(92 413)	(250 137)	(131 492)	(355 913)
<b>Profit or loss from economic activity</b>		<b>(222 902)</b>	<b>417 646</b>	<b>(317 161)</b>	<b>594 257</b>
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		14	324	20	461
Other interest payments and the like costs		(131 016)	(100 048)	(186 419)	(142 355)
<b>Profit or loss before extraordinary items and taxes</b>		<b>(353 904)</b>	<b>317 922</b>	<b>(503 560)</b>	<b>452 362</b>
Extraordinary incomes					
Extraordinary costs					
<b>Profit or loss before taxes</b>		<b>(353 904)</b>	<b>317 922</b>	<b>(503 560)</b>	<b>452 362</b>
Company's income tax		(8 381)	(29 218)	(11 925)	(41 573)
Deferred company's income tax		(18 930)	4 955	(26 935)	7 050
Other taxes		(13 408)	(9 827)	(19 078)	(13 983)
<b>Profit or (loss),</b>		<b>-394 623</b>	<b>283 832</b>	<b>-561 498</b>	<b>403 857</b>

### Profit/ (loss) per share

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

Jānis Mierkalns  
Member of the board

## Consolidated balance-sheet

Asset	Assets			
	30.06.2008	31.12.2007	30.06.2008	31.12.2007
Note	Ls	Ls	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	39 780	12 233	56 602	17 406
Intangible value of the company	132 000	132 000	187 819	187 819
Advanced payments for intangible investments		20 210	-	28 756
<b>TOTAL</b>	<b>171 780</b>	<b>164 443</b>	<b>244 421</b>	<b>233 981</b>
Fixed assets				
Land, buildings and constructions	2 214 021	2 315 321	3 150 268	3 294 405
Equipment and mashinery	2 200 114	2 528 287	3 130 480	3 597 428
Other fixed assets	56 673	43 755	80 638	62 258
Unfinished constructions	532 032	508 986	757 013	724 222
Advance payments for fixed assets		10 951	-	15 582
<b>TOTAL</b>	<b>5 002 840</b>	<b>5 407 300</b>	<b>7 118 400</b>	<b>7 693 895</b>
Long-term financial investments				
Partnership in the capital of related companies			-	-
Loans to related companies			-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>5 174 620</b>	<b>5 571 743</b>	<b>7 362 821</b>	<b>7 927 876</b>
<b>WORKING CAPITAL</b>				
<b>Reserves</b>				
Raw materials, direct materials, auxiliary materials	249 062	174 495	354 383	248 284
Unfinished production	904 319	1 124 298	1 286 730	1 599 732
Made production and goods for selling	120 643	151 229	171 660	215 179
Advance payments for goods	103 024	86 150	146 590	122 580
<b>TOTAL</b>	<b>1 377 048</b>	<b>1 536 172</b>	<b>1 959 363</b>	<b>2 185 776</b>
<b>Debtors</b>				
Debts of buyers and customers	1 215 920	818 186	1 730 098	1 164 174
Other debtors	105 888	234 704	150 665	333 954
Accured incomes	42 887	42 887	61 023	61 023
Expenses of the following periods	42 122	18 691	59 934	26 595
<b>TOTAL</b>	<b>1 406 817</b>	<b>1 114 468</b>	<b>2 001 720</b>	<b>1 585 745</b>
<b>Money and its equivalent</b>	<b>45 637</b>	<b>20 924</b>	<b>64 936</b>	<b>29 772</b>
<b>TOTAL WORKING CAPITAL</b>	<b>2 829 502</b>	<b>2 671 564</b>	<b>4 026 019</b>	<b>3 801 293</b>
<b>TOTAL ASSETS</b>	<b>8 004 122</b>	<b>8 243 307</b>	<b>11 388 840</b>	<b>11 729 169</b>

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

Jānis Mierkalns  
Member of the board

## Consolidated balance-sheet (continuation)

	Note	PASĪVS			
		30.06.2008	31.12.2007	30.06.2008	31.12.2007.
		Ls	Ls	EUR	EUR
<b>OWN CAPITAL</b>					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Adjustment reserve of foreign currency		1 850	(64)	2 632	(91)
Other reserves		2 213 959	2 213 959	3 150 180	3 150 180
Retained earnings from the previous year		341 536	(32 619)	485 962	(46 413)
Retained earnings of the year of account		(394 623)	374 155	(561 498)	532 375
TOTAL		<b>2 551 845</b>	<b>2 944 554</b>	<b>3 630 948</b>	<b>4 189 723</b>
<b>TOTAL OWN CAPITAL</b>		<b>2 551 845</b>	<b>2 944 554</b>	<b>3 630 948</b>	<b>4 189 723</b>
<b>CREDITORS</b>					
<b>Long-term creditors</b>					
Company's deferred income tax		244 514	244 514	347 912	347 912
Long-term loans from credit institutions		2 124 558	2 078 559	3 022 974	2 957 523
Financial lease liabilities long-term part		593 868	709 019	844 998	1 008 843
Deferred incomes long-term part		98 370	98 370	139 968	139 968
TOTAL		<b>3 061 310</b>	<b>3 130 462</b>	<b>4 355 852</b>	<b>4 454 246</b>
<b>Short-term creditors</b>					
Short-term loans from credit institutions		1 097 536	950 191	1 561 653	1 352 000
Financial lease liabilities short-term part		269 465	326 978	383 414	465 248
Advanced payments received from customers		1 289	8 128	1 834	11 565
Debts to suppliers and contractors		770 010	555 693	1 095 626	790 680
Accrued liabilities		61 140	61 140	86 994	86 994
Debts to related companies				-	-
Taxes payable		87 862	108 038	125 016	153 724
Other creditors		87 424	141 882	124 393	201 880
Incomes from following periods short-term part		16 241	16 241	23 109	23 109
Unpaid dividends from previous years				-	-
TOTAL		<b>2 390 967</b>	<b>2 168 291</b>	<b>3 402 040</b>	<b>3 085 200</b>
<b>TOTAL CREDITORS</b>		<b>5 452 277</b>	<b>5 298 753</b>	<b>7 757 891</b>	<b>7 539 446</b>
<b>TOTAL LIABILITIES</b>		<b>8 004 122</b>	<b>8 243 307</b>	<b>11 388 840</b>	<b>11 729 169</b>

Board:

Jānis Bertrāns  
 Chairman of the board

Ivars Feikners  
 Vice-chairman of the board

Gundars Maurs  
 Member of the board

Jānis Mierkalns  
 Member of the board

**Consolidated cash flow account**

<b>I. Cash flow from basic activity</b>	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
<b>1. Profit (+) or loss (-) before extraordinary items and taxes</b>	<b>(353 904)</b>	<b>317 918</b>	<b>(503 560)</b>	<b>452 357</b>
a) wear and tear of fixed assets and intangible investments (+)	407 601	248 878	579 964	354 121
b) elimination of fixed assets and intangible investments	323 953	201 467	460 944	286 662
c) formation of accruals (except the accruals for insecure debts)			-	-
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign			-	-
e) incomes from the acknowledgement of financing			-	-
f) other interest incomes and the like incomes	(14)	(310)	(20)	(441)
g) writing off of long-term financial investments and short-term value of securities			-	-
h) interest payments and the like costs	124 251	97 170	176 793	138 260
<b>2. Profit or loss before the corrections of impact of changes of</b>	<b>501 887</b>	<b>865 123</b>	<b>714 121</b>	<b>1 230 959</b>
a) increase of the remainder of debtors' debts (-) or decrease (+)	(147 119)	(395 283)	(209 331)	(562 437)
b) increase of the remainder of reserves (-) or decrease (+)	166 664	80 329	237 142	114 298
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)	293 255	100 669	417 264	143 239
<b>3 Gross cash flow from basic activity</b>	<b>814 687</b>	<b>650 838</b>	<b>1 159 195</b>	<b>926 059</b>
4. Expenditures to interest payers	(131 016)	(97 170)	(186 419)	(138 260)
5. Expenditures for paying company's income tax and immovable property tax	(40 719)	(34 165)	(57 938)	(48 612)
<b>6. Cash flow before extraordinary items</b>	<b>642 952</b>	<b>519 503</b>	<b>914 838</b>	<b>739 186</b>
7. Cash flow from extraordinary items				
<b>Net cash flow from basic activity</b>	<b>642 952</b>	<b>519 503</b>	<b>914 838</b>	<b>739 186</b>
<b>II. Cash flow from investment activities</b>				
1. Purchase or alienation of shares or parts of related or associated companies	7 294		10 378	-
2. Granted loans	144 288		205 303	-
3. Purchase of fixed assets and intangible assets	(347 071)	(1 698 178)	(493 838)	(2 416 290)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.	(6 652)	996 136	(9 465)	1 417 374
5. Incomes from selling fixed assets and intangible investments			-	-
6. Received interest	14	310	20	441
<b>6. Net cash flow from investing activities</b>	<b>(202 127)</b>	<b>(701 732)</b>	<b>(287 601)</b>	<b>(998 475)</b>
<b>III. Cash flow from financing activities</b>				
1. Received loans	1 124 079	976 176	1 599 420	1 388 973
2. Received financing from the EU			-	-
3. Received investment in capital			-	-
4. Expenditures to pay back loans	(1 052 367)	(467 120)	(1 497 383)	(664 652)
5. Expenditures for redemption of a hired fixed asset	(486 962)	(159 860)	(692 885)	(227 460)
6. Disbursed dividends		(96 783)	-	(137 710)
<b>6. Net cash flow from financing activity</b>	<b>(415 250)</b>	<b>252 413</b>	<b>(590 848)</b>	<b>359 151</b>
<b>IV. Result of fluctuations of the exchange rate of foreign currency</b>	<b>(863)</b>	<b>(99)</b>	<b>(1 228)</b>	<b>(141)</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>24 712</b>	<b>70 085</b>	<b>35 162</b>	<b>99 722</b>
VI. Remainder of money or its equivalents at the beginning of the year of	20 925	87 744	29 774	124 848
VII. Remainder of money or its equivalents at the end of the year of	45 637	157 829	64 936	224 570

Board:

Jānis Bertrāns  
Chairman of the boardIvars Feikners  
Vice-chairman of the boardGundars Maurs  
Member of the boardJānis Mierkalns  
Member of the board

## Consolidated account of the changes in own capital

joint-stock company Saldus mežrūpniecība							
	Share capital	Currency fluctuations due to recalculation of foreign	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Total own capital
	Ls		Ls	Ls	Ls	Ls	Ls
<b>31.12.2006</b>	<b>387 136</b>	<b>(2)</b>	<b>1 987</b>	<b>2 056 620</b>	<b>(7 235)</b>	<b>235 733</b>	<b>2 674 239</b>
Currency fluctuations due to recalculation		(62)					(62)
Distribution of the profit of year 2006	-		-	157 339	(25 384)	(235 733)	(103 778)
Disbursed dividends	-		-				-
Profit of the year of account, correcte	-		-			374 155	374 155
<b>31.12.2007.</b>	<b>387 136</b>	<b>(64)</b>	<b>1 987</b>	<b>2 213 959</b>	<b>(32 619)</b>	<b>374 155</b>	<b>2 944 554</b>
Currency fluctuations due to recalculation		1 914					1 914
Reserves of recalculation	-		-				-
Distribution of the profit of year 2007	-		-		374 155	(374 155)	-
Estimated dividends	-		-				-
Profit of the year of account	-		-			(394 623)	(394 623)
<b>30.06.2008</b>	<b>387 136</b>	<b>1 850</b>	<b>1 987</b>	<b>2 213 959</b>	<b>341 536</b>	<b>(394 623)</b>	<b>2 551 845</b>

	Share capital	Currency fluctuations due to recalculation of foreign currency	Share premium	Other reserves	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2006</b>	<b>550 845</b>	<b>(3)</b>	<b>2 827</b>	<b>2 926 307</b>	<b>(10 294)</b>	<b>335 418</b>	<b>3 805 099</b>
Currency fluctuations due to recalcul:	-	(88)	-	-	-	-	(88)
Distribution of the profit of year 2006	-	-	-	223 873	(36 118)	(335 418)	(147 663)
Disbursed dividends	-	-	-	-	-	-	-
Profit of the year of account, correcte	-	-	-	-	-	532 375	532 375
<b>31.12.2007.</b>	<b>550 845</b>	<b>(91)</b>	<b>2 827</b>	<b>3 150 180</b>	<b>(46 413)</b>	<b>532 375</b>	<b>4 189 723</b>
Currency fluctuations due to recalcul:	-	2 723	-	-	-	-	2 723
Reserves of recalculation	-	-	-	-	-	-	-
Distribution of the profit of year 2007	-	-	-	-	532 375	(532 375)	-
Estimated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(561 498)	(561 498)
<b>30.06.2008</b>	<b>550 845</b>	<b>2 632</b>	<b>2 827</b>	<b>3 150 180</b>	<b>485 962</b>	<b>(561 498)</b>	<b>3 630 948</b>

Board:

Jānis Bertrāns  
Chairman of the board

Ivars Feikners  
Vice-chairman of the board

Gundars Maurs  
Member of the board

Jānis Mierkalns  
Member of the 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 the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2006 consolidated report, hereinafter Holding company.

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

#### 1. Name of the company

#### Pakuļu sporta bāze / Pakuļi Sports Centre

Legal status of the company

Limited liability company

Registration number, registration date in commercial register

48503009010 November 21, 2002

Address

Mežvidi, Novadnieku pag. Saldus rajons LV 3801

Main types of business

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

Owner of the company

Joint-stock company Saldus mežrūpniecība, 100%

Year of account

January 1- Juny 30, 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

Address

Russia, Pskov Region

Main types of business

Konnaja 2-214, Pskov, Russia 180007

Owners of the company

Logging

Joint-stock company Saldus mežrūpniecība - 99%

Kolosovs Sergejs

- 1%

Year of account

January 1- Juny 30, 2008

#### 3. Name of the company

#### Saldus

Legal status of the company

Limited liability company (OOO)

Registration number, date, place

1056000426371 December 21, 2005

Adrese

Russia, Pskov Region

Main types of business

Konnaja 2-214, Pskov, Russia 180007

Owners of the company

Purchase of timber

Joint-stock company Saldus mežrūpniecība – 100 %

Year of account

January 1- Juny 30, 2008

---

## 2. Important accounting principles

The following accounting principles were used to prepare the holding company's financial statements:

### ***Principles of preparation of financial statement***

Holding company's financial statement is prepared in compliance with the International Financial Reporting Standards (IFRS) of the European Union. The financial statement is prepared in compliance with the Historical Cost Concept Accounting Principle.

### ***Currency and units used in the preparation of the financial statement***

In the financial statements the monetary unit is Latvian lat (LS), which is the monetary unit in the Republic of Latvia.

### ***Consolidation***

This consolidated financial statement includes financial statement of JSC Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., OOO Saldus Les, and OOO Saldus. Financial statements of subsidiary companies are prepared in the same year of account as the financial statement of the parent company by using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, costs, profit, loss and cash flow of JSC Saldus mežrūpniecība and the companies, which belong to JSC Saldus mežrūpniecība (subsidiary companies), in the way as if JSC Saldus mežrūpniecība and its subsidiary companies were one company, therefore untapped profit, mutual payments, mutually owned shares and other mutual deals between these companies, which belong to the holding company, were excluded. In the accounting of purchases made by subsidiary companies there was used the purchase method. Predominance of purchase costs over the real value of net assets earned in the holding company is accounted as intangible value.

### ***Consolidation of foreign subsidiary companies***

When financial showings of foreign subsidiary companies were included in the consolidated financial statements, the holding company's parent company recalculated monetary and inmonetary assets, liabilities, items of income and expenditure of the foreign subsidiary companies as well as credit items by taking into consideration the exchange rate established by the Bank of Latvia on the last day of account. Exchange rate difference, which appears when items of assets and liabilities are shown, are classified as own capital. Consolidation of the financial statements of foreign subsidiary companies is done in accordance with the established consolidation procedures, for example, by excluding mutual deals of the companies that are the part of the holding company.

### ***Changes in the accounting principles***

In 2006, the holding company accepted IFRS, amended in 2004, the use of which is obligatory starting from January 1, 2005 or later. Due to the use of these standards, there were not made any significant changes in the principles of accounting in the holding company. In 2006, consolidation was done for the first time as in 2005 the showings of subsidiary companies did not have an important impact on the showings of the parent company.

*Use of International Financial Reporting Standards (IFRS):*

- IFRS No.1 Giving of financial statement
- IFRS No.2 Reserves
- IFRS No.7 Cash flow accounts
- IFRS No.8 Accounting policies, changes in accounting calculations and errors
- IFRS No.10 Events after the date of balance
- IFRS No.14 Information per segments
- IFRS No.16 Fixed assets
- IFRS No.18 Incomes
- IFRS No.19 Employee allowance
- IFRS No.21 Impact of changes of foreign currencies exchange rate
- IFRS No.23 Payments of loans
- IFRS No.24 Giving information about related parties
- IFRS No.27 Consolidated and separate financial statements
- IFRS No.32 Financial instruments: disclosure and provision
- IFRS No.33 Profit per share
- IFRS No.36 Decrease of the value of assets
- IFRS No.37 Accruals, possible liabilities and possible assets
- IFRS No.38 Intangible assets
- IFRS No.39 Financial instruments: recognition and evaluation

## 2. Important accounting principles (continuation)

### *Use of calculation (continuation)*

When preparing financial statements, management have to repose on certain calculations and assumptions, which impact the reminders of profit or loss calculations, disclosed in certain financial statements in balance-sheet as well as the amount of possible liabilities. Following events may have an impact on assumptions, which serve as a ground for making respective calculations. Impact of any changes in calculations is shown in financial statements at the time of their determination.

### *Operations in foreign currency*

Currency, used in the holding company's accounting, is lats (Ls), except in OOO Saldus and OOO Saldus Ļes where the used currency is RUB (Russian roubles).

All operations in foreign currencies are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia on the day of corresponding operation. On the last day of the year of account, funds and liabilities in foreign currency are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia. Differences in exchange rates, which occur because of payments made in different currencies, are disclosed in profit- loss calculation in their net value. Regarding the capital of OOO Saldus and OOO Saldus Ļes, conversion of currency, used in these companies, into currency, used in the holding company, is done by taking into consideration the exchange rate, which is valid on the day of balance, but regarding profit or loss items- the exchange rate, which is valid at the end of the year of account. The corrections of revaluation are shown in a separate item of the own capital.

	30.06.2008.	30.06.2007.
USD/ LVL	0,447	0,484
RUB/ LVL	0.019	0.0197
EUR/ LVL	0,702804	0,702804

### *Intangible investments*

Intangible investments are accounted in their acquisition costs by using linear method, which is amortized during the productive time of the use of assets. If occur any events or changes of circumstances that show that the balance value of intangible investments could be irrecoverable, the corresponding value of intangible investments is reassessed in order to establish the decrease of its value. Losses, which occur due to the decreased of value, are admitted if the balance value of intangible investments exceeds the recoverable amount of money.

Intangible investments contain software licences, intangible value and other intangible investments, which are related with the activity of parent and subsidiary companies of the holding company.

Software licences, used in the holding company, are accounted in their acquisition value by taking away their accumulated amortization.

Amortization is calculated by the use of linear method during the productive time of their use.

Costs, which are related to the maintenance of software, are included in the profit or loss calculation as expenses.

## 2. Important accounting principles (continuation)

### **Fixed assets**

Fixed assets are accounted in their initial costs except the accumulated wear and tear and the decrease of their value. Wear and tear of land is not calculated.

Wear and tear is calculated by the use of linear method in their productive time of use.

Buildings, constructions	- 10 years
Equipment and machinery	- 10 years
Forest equipment	- 5 years
Timber processing lines	- 5 years
Other fixed assets	- 5 years
Computing devises and data storage systems, software	- 5 years

Wear and tear is estimated starting from the following month of their putting into operation or their inclusion into economic activity. For each unit of fixed assets, which costs are essential and make the total costs of fixed assets, wear and tear is estimated separately. Costs of the repair of fixed assets are included in the profit or loss statement of the corresponding period where they occurred.

The accounting value of fixed assets is terminated if they are alienated or if there are not expected any benefits from their use in future. Any profit or loss that occurs due to the termination of the acknowledgement of fixed assets (which is calculated as a difference between net incomes from alienation and the balance value of fixed assets) must be included in profit-loss statement in the period when the termination of the acknowledgement of fixed assets occurred.

If there are any events or circumstances indicating that the balance value of fixed assets could not be recovered, the corresponding value of fixed assets is revaluated in order to establish the decrease of their value. If there are any indications that their value might be irrecoverable and if the balance value of assets exceeds the calculated amount, the asset is written-off to its recoverable sum.

Unfinished construction discloses the formation of fixed assets and the costs of unfinished constructions, and it is accounted in its initial value. The initial cost includes construction costs and other direct costs. Wear and tear of unfinished constructions is not calculated while the corresponding assets are not finished and put into operation.

### **Decrease of the value of assets**

At the end of each year of account the holding company verifies if there are any indications that warn about the decrease of the value of assets. If such indications are found and if there must be carried out the annual verification of the decrease of the value of assets, the holding company establishes the recoverable sum of each asset. The recoverable sum of an asset is the biggest sum of its selling value, from which are distracted the costs of its sale and use value. In order to identify the decrease of value, assets are grouped in the lowest possible level for which it is possible to establish separate cash flows (cash generating assets). If the balance of an asset is higher than the recoverable sum, the increased of the value of the asset is admitted and the asset is written off to its recoverable sum. Losses from the decrease of value are shown in profit-loss statement as costs of other economic activity.

### **Costs of loans**

Costs of loans are shown in profit-loss statement at the time of their occurrence in compliance with the basic accounting principle of the accounting standard No. 23.

## **2. Important accounting principles (continuation)**

### ***Leasing***

Financial leasing deals, within which all risks and rewards are assigned to the holding company and which result from proprietorship of the leasehold, in the balance are acknowledged as fixed assets for the amount of money, which correspond with the purchase value of the property taken on lease. Financial leasing payments are distributed between financial costs and the decrease of liabilities so that in each period they would secure constant interest rate of the remnants of liabilities. Financial costs are included in profit-loss statement as interest costs.

Leasing of fixed assets, within which all risks resulting from proprietorship are undertaken by the lessor, is classified as operational leasing. Leasing payments within operational leasing are accounted as costs during the whole leasing period and are related to the profit-loss statement during the whole leasing period by the use of a linear method.

### ***Reserves***

Unfinished production

Reserves are accounted in their lowest actual cost and net selling value. Actual cost is calculated by the use of the first in first out method (FIFO). Net selling value is the calculated selling price in typical business conditions except the costs, needed to finish production and selling costs.

Materials are accounted in their purchase costs.

Finished and unfinished goods are accounted in their direct material costs and labour costs by adding to them indirect production costs, which include wages, electricity, wear and tear and the like costs of production, calculated during the typical volume of output.

Finished products are accounted in their lowest actual cost or net selling value. Net selling value is the calculated selling price in typical business conditions except the costs needed to finish production and selling costs.

The company assesses on regular basis if the value of reserves has not decreased because of aging or damages. The corresponding losses are included in profit-loss statement as the costs of sold production. When the damaged reserves are destroyed, the value of reserves and the value of corresponding accruals are written off.

### ***Debts of buyers and customers and other debtors***

Debts of buyers and customers are accounted and shown in the balance in correspondence with their initial bills except the accruals for insecure debts. Accruals for insecure debts are calculated when it is not likely to recover the whole sum of debt. Debts are written off when their recovery is thought impossible.

### ***Money and its equivalents***

Money and its equivalents are the money in bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less.

### ***Share capital***

Common shares are classified as own capital. All shares are registered shares and non-materialised.

### ***Profit per share***

Profit per share is calculated by dividing the profit of the year of account in accordance with taxes with the weighted average number of shares in circulation in the period of account.

## **2. Important accounting principles- income acknowledgement (continuation)**

### ***Credits and loans***

Credits and loans are shown in their initial value. It is estimated by adding to or subtracting from the real value of the amount of loan costs related to the granting/receiving the loan.

Further loans will be shown in their amortized value.

Profit or losses, earned due to amortization, are shown in the profit-loss statement as interest incomes and expenses.

### ***Accruals***

Accruals are acknowledged when the holding company has the duty to acknowledge them (legal duty or because there exists such practice), and it is caused by a past event, and there is a probability that in order to meet obligations will be needed an outflow of resources from the holding company, and the plausible enough assessment of the scale of liabilities is possible. If the holding company predicts that expenses needed for building up accruals will be partly or totally paid back, the costs are acknowledged as a separate asset only when it is clear that these expenses will really be paid back. Expenses, which are related to any kind of accruals, in the profit-loss statement are shown by subtracting sums, which are acknowledged for paying back expenses.

### ***Accruals and deferred liabilities***

Accruals and deferred liabilities are accounted in the way that incomes and expenditures could be acknowledged at the time of origin.

### ***Income acknowledgement***

Incomes are acknowledged if there is a conviction that the holding company is able to gain benefit in the extent that it is possible to identify it. Acknowledging incomes, the following conditions are taken into consideration:

#### *Rendering of services*

In this case it mainly means rendering of transport services and services related to timber processing.

Incomes from the rendering of services are acknowledged in accordance with the scale of the rendered services. Incomes from the rendering of services are acknowledged within the period when the services were rendered.

If the outcome related to the rendering of services can not be truthfully estimated, the incomes are acknowledged only of the amount of recovering acknowledged costs.

#### *Sale of goods*

Incomes are acknowledged when the holding company has assigned to its customer the most important risks and rewards related to the proprietorship to goods, i.e. when the holding company has delivered goods to its customer and the customer has accepted the goods in line with the provisions of agreement and when there is a conviction about receiving back debtors' debts.

#### *Interest*

Incomes are acknowledged within the period when they arise and are included in the profit-loss statement.

#### *Dividends*

Incomes are acknowledged when a shareholder has rights to receive them.

#### *Leasing incomes*

Leasing incomes from investments in properties are accounted for valid leasing contracts during the whole time of leasing.

## **2. Important accounting principles- income acknowledgement (continuation)**

### **Taxes**

#### *Company's income tax*

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

#### *Deferred income tax*

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

### **Possible liabilities and assets**

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

### **Employee benefits**

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

### **Connected persons**

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

### **Events after the end of the year of account**

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

### 3. Segments of the holding company's activity

	logging		wood processing		Other undividable		Total	
	30.06.2008	30.06.2007	30.06.2008	30.06.2007	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	Ls	Ls	Ls	Ls	Ls	Ls	Ls	Ls
Net turnover	3 978 760	3 853 737	1 078 752	1 680 665	159 195	913 223	5 216 707	6 447 625
Production costs of sold production	(3 711 480)	(3 505 946)	(1 285 217)	(1 530 081)	(107 504)	(612 068)	(5 104 201)	(5 648 095)
Selling costs	(15 376)	(32 514)	-	-	(40 290)	-	(55 666)	(32 514)
General and administration costs	(141 300)	(131 900)	(49 029)	(37 685)	(15 407)	(18 844)	(205 736)	(188 429)
Othe incomes/ (expenditures)	(52 328)	125 403	(21 679)	(74 144)	-	(212 204)	(74 007)	(160 945)
from economic activity								
<b>Segment's profit</b>	<b>58 276</b>	<b>308 780</b>	<b>(277 173)</b>	<b>38 755</b>	<b>(4 006)</b>	<b>70 107</b>	<b>(222 903)</b>	<b>417 642</b>
Incomes from participation in the company's capital							-	-
Financial costs, net	(69 691)	(1 567)	(31 596)	(7 754)	(29 714)	(90 403)	(131 001)	(99 724)
Company's income tax (undivided)	(18 930)		(47)		(8 334)	(24 263)	(27 311)	(24 263)
Other taxes	(2 536)	(1 865)	(5 902)	(5 417)	(4 970)	(2 545)	(13 408)	(9 827)
<b>Net result</b>	<b>(32 881)</b>	<b>305 348</b>	<b>(314 718)</b>	<b>25 584</b>	<b>(47 024)</b>	<b>(47 104)</b>	<b>(394 623)</b>	<b>283 828</b>
Segment's assets	5 602 886	3 708 730	1 600 824	2 225 238	800 412	1 483 491	8 004 122	7 417 459
Segment's liabilities	800 412	4 450 475	2 401 237	741 746	4 802 473	2 225 238	8 004 122	7 417 459

	logging		wood processing		Other		Total	
	30.06.2008	30.06.2007	30.06.2008	30.06.2007	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	5 661 265	5 483 374	1 534 926	2 391 371	226 514	1 299 399	7 422 705	9 174 144
Production costs of sold production	(5 280 960)	(4 988 512)	(1 828 699)	(2 177 109)	(152 964)	(870 894)	(7 262 624)	(8 036 515)
Selling costs	(21 878)	(46 263)	-	-	(57 328)	-	(79 206)	(46 263)
General and administration costs	(201 052)	(187 677)	(69 762)	(53 621)	(21 922)	(26 813)	(292 736)	(268 110)
Other incomes/ (expenditures) from economic activity	(74 456)	178 432	(30 846)	(105 497)	-	(301 939)	(105 302)	(229 004)
<b>Segment's profit</b>	<b>82 919</b>	<b>439 354</b>	<b>(394 382)</b>	<b>55 143</b>	<b>(5 700)</b>	<b>99 753</b>	<b>(317 162)</b>	<b>594 251</b>
Incomes from participation in the company's capital							-	-
Financial costs, net	(99 161)	(2 230)	(44 957)	(11 033)	(42 279)	(128 632)	(186 398)	(141 894)
Company's income tax (undivided)	(26 935)	-	(67)	-	(11 858)	(34 523)	(38 860)	(34 523)
Other taxes	(3 608)	(2 654)	(8 398)	(7 708)	(7 072)	(3 621)	(19 078)	(13 983)
<b>Net result</b>	<b>(46 785)</b>	<b>434 471</b>	<b>(447 803)</b>	<b>36 403</b>	<b>(66 909)</b>	<b>(67 023)</b>	<b>(561 498)</b>	<b>403 851</b>
Segment's assets	7 972 189	5 277 047	2 277 767	3 166 228	1 138 884	2 110 818	11 388 840	10 554 093
Segment's liabilities	1 138 884	6 332 455	3 416 652	1 055 409	6 833 303	3 166 228	11 388 840	10 554 093



#### 4. Segments of the holding company's activity (continuation)

The holding company has disclosed information through business segments.

The above table discloses holding company's profit-loss items as well as distribution of assets and liabilities through segments of its activity: holding company's management think that cash flow statement of each segment is not useful.

Description of segments:

##### *Logging*

Incomes in this segment of activity arise, mainly, from selling round timber as a result of forest exploitation activities, product transportation within the territory of Latvia, and from forest management services.

##### *Wood processing*

Incomes in this segment of activity arise, mainly, from selling sawn timber as a result of production process and from rendering various services related to wood processing.

##### *Other*

Received lease payments from letting out on hire company's immovable properties and other incomes related to management.

#### 5. Net turnover through geographical segments.

Since holding company's economic activity mainly is carried out in Latvia and all important company's assets are located in Latvia, the management think that it is not useful to prepare an account on economic activity through geographical segments because incomes from geographical segments do not exceed 10% of total incomes.

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	Ls	Ls	EUR	EUR
Incomes from sales including	5 062 578	6 236 793	7 203 400	8 874 157
Latvia	4 825 077	5 703 903	6 865 466	8 115 923
Russia	150 646	7 415	214 350	10 551
European Union countries	86 855	525 475	123 584	747 684
Incomes from rendering of services, including	154 129	210 832	219 306	299 987
Latvia	131 059	110 613	186 480	157 388
European Union countries	23 070		32 826	
	<b>5 216 707</b>	<b>6 447 625</b>	<b>7 422 705</b>	<b>9 174 144</b>

#### 6. Financial instruments

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

##### **Financial risks**

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

##### **Credit risk**

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

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

---

**Foreign currency risk**

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

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

**Interest rate risk**

The holding company is subjected to the interest rate risk, which mainly are borrowings from credit institutions and financial leasing companies. Holding company's management think that on June 30, 2008 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

**Liquidity risk**

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

**Real value**

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

**7. Events after the end of the year of account**

In the period of time from the last day of the year of account until the day of signing this financial statement there have not occurred any events as a result of which should have been made any corrections or explanations in this financial statement.

**Statement about the responsibility of management**

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

Management verifies that when the report for the period, which ends on June 30, 2008, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

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

**Joint-stock company „Saldus mežrūpniecība”**

**Consolidated Management Report**

**added to the report of activities for the first half of year 2008**

**Description of commercial activity within the accounting period**

Within this accounting period there have happened very big and different fluctuations in the market of wood felling sites as well as in the market of round timber and sawn timber. In forest exploitation we lack behind our planned volume: sales of round timber were carried out in the amount of 108 230 m<sup>2</sup> instead of planned 115 000 m<sup>2</sup>, preparation of round timber was carried out in the amount of 104 035 m<sup>3</sup> instead of planned 121 200 m<sup>3</sup>. Volume of forest exploitation was artificially slowed down as it is related to the rapid decline of the offer of felling areas in private sector and to the disproportionately high price of resources in the felling areas which are under the long-term agreement with A/S “Latvijas valsts meži” (in English holding company “Latvia’s State Forests”). We believe that in the current market situation it is losing to carry out exploitation of felling areas in the holding company “Saldus mežrūpniecība”. However, the volume of wood processing slightly exceeds the planned amount (we produced 8 425 m<sup>3</sup> of sawn timber and 1 225 m<sup>3</sup> of firewood; however we did not carry out our sales plan (we sold 7 200 m<sup>3</sup> of sawn timber and 870 m<sup>3</sup> of firewood). Within the whole accounting period the demand for construction materials has been very low and prices are falling. Within this accounting period in May we made a decision to stop production in mill “Paegles” as the management does not believe that the mill could work profitably in the existing economic situation.

The consolidated loss from the economic activity of the holding of “Saldus mežrūpniecība” after taxes is 394 623 LVL with the net turnover in the amount of 5 216 707 LVL, which makes loss in the amount of 1,02 LVL per one issued share.

The consolidated loss is this big due to the fact that the holding company “Saldus mežrūpniecība” has incurred loss in the amount of 352 060 LVL, but of companies, which work with 100% capital of the joint-stock company “Saldus mežrūpniecība”, only ooo “Салдус лес” worked with profit of 49 LVL, but “Pakuļi Sports Centre” ltd. worked with loss of 15 043 LVL and ooo “Салдус” with loss of 29 935 LVL. The financial report of consolidated companies is prepared on the basis of information owned by the Capital Company and requirements of normative acts in force, which give fair and clear idea about assets and liabilities, owned by the capital company and consolidated companies, about their financial situation and profit or loss. In this report is included fair information.

**Important events after the end of the accounting year**

From the end of the accounting period to the period of drawing up this consolidated report with the exception of the said above there have not been any significant events which could have influenced the company’s financial situation, stated in the consolidated financial report. After the extraordinary meeting on 03.07.2008 there were made significant changes in the structure of the board of the holding company and there are changes in the board of directors, too. Starting from 08.07.2008 the name of the subsidiary company ooo “Салдус лес” is changed and now it is called «Деревообрабатывающий комбинат № 3».

**Forecast for the financial showings and business activity for 2008**

At the beginning of 2008, the sawn timber market did not improve. Today it is hard to predict for how long the situation will last as it is directly related to the recovery of global economics because the main part of our production is being exported.

The recession and stagnation is seen in almost all sectors of the round timber market.

Moreover, in the felling areas, which are under the long-term agreement with A/S “Latvijas valsts meži” (in English joint-stock company “Latvia’s State Forests”) the price is established according to tenders, which have happened within last three months, thereby the prices of resources are declining with very big delays, and it is not favourable for commercial activities in forest exploitation when prices in the round timber market are changing very fast.

The above mentioned does not give positive signals for systematic business development in the second half of year 2008. Today the planned sales volume of sawn timber remains the same 21600 m<sup>3</sup> as starting from August of this year we have changed our approach to the process of production of wood; we are planning to significantly increase the existing volume of production thus decreasing and making more optimal production costs. Planned volume of logging is 261000 m<sup>3</sup>. Right now we have not changed our plans, but at the moment of decision making we shall evaluate the existing market situation.

In Russia, the production process in the mill «Деревообрабатывающий комбинат № 3» has started; today it works in tentative regime, but gradually until the end of year it has to reach the planned production volume. As soon as production line is adjusted and production process improved, it shall work in 2 or even 3 shifts.

**Business and financial risks management policy**

In 2008, the joint-stock company “Saldus mežrūpniecība” is planning to continue dividing its business risks in the field of forest exploitation between Latvia and the Russian Federation so that the planned turnover in the Russian Federation in 2008 reaches 1.5 million LVL.

Besides, we have to continue rendering forest exploitation services in Lithuania by becoming sub-contractors so that in October we could win rights in 2009 to directly render services to the state owned forestries in Lithuania.

We have to carry out sales of useless fixed assets in mills and have to continue our work at machine-shop “Mežvidi” in Novadnieki Civil Parish thus reducing the attraction of short-term current assets from Latvian credit institutions and becoming more independent in the field of attraction of short-term financing.

August 25, 2008

Board of directors