

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

(REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2009

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2010

CONTENT

Information about the Company	3
Management announcement	4
Statement about the responsibility of management	5
Consolidated profit - loss calculation	6
Consolidated balance-sheet	7
Consolidated balance-sheet (continuation)	8
Consolidated cash flow account	9
Consolidated account of the changes in own capital	10
Annex to the financial statement	11

Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Mierkalns (<i>Jānis Mierkalns</i>) – member of the Board Gundars Maurs (<i>Gundars Maurs</i>) – member of the Board Gatis Zommers (<i>Gatis Zommers</i>) – member of the Board
Members of the Council: name, surname, position	Uldis Melkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council Ainis Dabols (<i>Ainis Dābols</i>) – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2009
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2009
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2009

Management announcement

To Consolidated report of economic activity of Year 2009

Business description in the framework of report period

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

From the mid-year of 2009, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

The consolidated profit of the holding JSC „Saldus mežrūpniecība” of Year 2009 from economic activities after tax deductions is 188 408 LVL, whereby Net turnover is 9 285 947 LVL, which comprise profit per emitted share 0,49 LVL.

The consolidated companies financial report is prepared on the base of information that is at share company board's disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company and of its consolidation group. There is true information included in the announcement.

Important events after the end of year of account

From the end of period of account until the moment of approval of the consolidated report, there were no significant events that could make impact on the financial position of the holding that was fixed in the consolidated finance report.

Forecasts for financial indicators and plans for economic activities in 2010

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

In 2010, it is planned to increase the production and realization volumes in logging by 40 %, i.e. up to 350 000 m³ yearly. It is planned to increase the production and realization volumes for sawn timber up to 150 000 m³ yearly. It is envisaged that profit indicators will remain in the level of 2009.

Business and financial risk management policy

In order to increase competitiveness of the company in this economic situation, the production volumes are being increased by more rational use of company resources, by organization of long-term cooperation with providers of resources and the growing demand in the timber market is taken into account. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.

The interests of the commercial company are the care for social protection and welfare of its employees, because only thus the development of society can be sustainable.

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economical activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks.

February 26, 2010

Board:

Jānis Bertrāns
Chairman of the board

Jānis Mierkalns
Member of board

Gundars Maurs
Member of board

Gatis Zommers
Member of board

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 December 31, 2009, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

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

Consolidated profit - loss calculation

	Note	31.12.2009 LVL	31.12.2008 LVL	31.12.2009 EUR	31.12.2008 EUR
Net turnover		9 285 947	9 757 967	13 212 712	13 884 336
Production costs of sold products		(8 102 627)	(9 257 565)	(11 529 000)	(13 172 328)
Gross profit		1 183 320	500 402	1 683 713	712 008
Selling costs		(870 902)	(204 597)	(1 239 182)	(291 115)
General and administration costs		(163 822)	(334 960)	(233 098)	(476 605)
Other income from economic activity		474 663	431 234	675 385	613 591
Other expenses from economic activity		(170 495)	(385 289)	(242 593)	(548 217)
Profit or loss from economic activity		452 764	6 790	644 225	9 661
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		101 918	23	145 016	33
Other interest payments and the like costs		(329 778)	(273 033)	(469 232)	(388 491)
Profit or loss before extraordinary items and taxes		224 904	(266 219)	320 010	(378 797)
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		224 904	(266 219)	320 010	(378 797)
Company's income tax		(5 722)	(2 277)	(8 142)	(3 240)
Deffered company's income tax			60 248	-	85 725
Other taxes		(30 774)	(10 828)	(43 787)	(15 407)
Profit or (loss),		188 408	-219 076	268 080	-311 718
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		0.49	(0.57)	0.69	(0.81)

Board:

Jānis Bertrāns
Chairman of the board

Jānis Mierkalns
Member of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board

Consolidated balance-sheet

	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	46 159	34 852	65 678	49 590
Intangible value of the company	132 000	132 000	187 819	187 819
Advanced payments for intangible investments	-	-	-	-
TOTAL	178 159	166 852	253 497	237 409
Fixed assets				
Land, buildings and constructions, biological assets	2 936 595	3 611 470	4 178 398	5 138 659
Biological assets	553 296			
Equipment and mashinery	1 316 049	1 821 994	1 872 569	2 592 464
Other fixed assets	17 232	31 986	24 519	45 512
Unfinished constructions	1 158 674	523 520	1 648 645	744 902
Advance payments for fixed assets	29 980	-	42 658	-
TOTAL	6 011 826	5 988 970	7 766 788	8 521 537
Long-term financial investments				
Partnership in the capital of related companies			-	-
Loans to related companies			-	-
TOTAL	-	-	-	-
TOTAL LONG-TERM INVESTMENTS	6 189 985	6 155 822	8 020 286	8 758 946
WORKING CAPITAL				
Reserves				
Raw materials, direct materials, auxiliary materials	251 439	274 099	357 765	390 008
Unfinished production	1 300 105	971 483	1 849 883	1 382 296
Biological assets	298 760	328 858	425 097	467 923
Made production and goods for selling	284 930	583 791	405 419	830 660
Advance payments for goods	1 386 845	912 478	1 973 303	1 298 339
TOTAL	3 522 079	3 070 709	5 011 467	4 369 225
Debtors				
Debts of buyers and customers	687 221	782 859	977 827	1 113 908
Other debtors	145 755	179 337	207 391	255 174
Accured incomes	31 346	31 394	44 601	44 670
Expenses of the following periods	262 898	118 322	374 070	168 357
TOTAL	1 127 220	1 111 912	1 603 890	1 582 108
Money and its equivalents	19 277	480 774	27 429	684 080
TOTAL WORKING CAPITAL	4 668 576	4 663 395	6 642 785	6 635 413
TOTAL ASSETS	10 858 561	10 819 217	14 663 071	15 394 359

Board:

Jānis Bertrāns
Chairman of the board

Jānis Mierkalns
Member of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board

Consolidated balance-sheet (continuation)

	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Note	LVL	LVL	EUR	EUR
OWN CAPITAL				
Share capital	387 136	387 136	550 845	550 845
Increase of the price of issue of shares	1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments	802 492	800 242	1 141 843	1 138 642
Adjustment reserve of foreign currency	(51 249)	(120 061)	(72 921)	(170 831)
Other reserves	2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year	(285 977)	(66 905)	(406 909)	(95 197)
Retained earnings of the year of account	188 408	(219 076)	268 080	(311 717)
TOTAL	3 665 882	3 406 408	5 216 080	4 846 882
TOTAL OWN CAPITAL	3 665 882	3 406 408	5 216 080	4 846 882
ACCURED				
Accured liabilities	44 955	48 077	63 965	68 407
Company's deferred income tax	186 543	186 543	265 427	265 427
TOTAL	231 498	234 620	329 392	333 834
CREDITORS				
Long-term creditors				
Long-term loans from credit institutions	1 790 753	2 115 960	2 548 012	3 010 740
Financial lease liabilities long-term part	202 155	443 495	287 641	631 037
Other creditors	1 388 038	1 388 038	1 975 000	1 975 000
Deferred incomes long-term part	82 129	82 129	116 859	116 859
TOTAL	3 463 075	4 029 622	4 927 512	5 733 636
Short-term creditors				
Short-term loans from credit institutions	1 793 388	2 085 763	2 551 761	2 967 773
Financial lease liabilities short-term part	223 552	236 319	318 086	336 252
Advanced payments received from customers	16 901	225 659	24 048	321 084
Debts to suppliers and contractors	1 356 221	478 444	1 929 729	680 764
Debts to associated companies	-	-	-	-
Taxes payable	42 490	48 354	60 458	68 802
Other creditors	65 353	57 787	92 989	82 223
Incomes from following periods short-term part	201	16 241	286	23 109
Unpaid dividends from previous years	-	-	-	-
TOTAL	3 498 106	3 148 567	4 977 356	4 480 007
TOTAL CREDITORS	6 961 181	7 178 189	9 904 868	10 213 643
TOTAL LIABILITIES	10 858 561	10 819 217	15 450 340	15 394 359

Board:

Jānis Bertrāns
Chairman of the board

Jānis Mierkalns
Member of the board

Gundars Maurs
Member of the board

Gatis Zommers
Member of the board

Consolidated cash flow account

I. Cash flow from basic activity		31.12.2009	31.12.2008	31.12.2009	31.12.2008
		LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes		224 904	(266 218)	320 010	(378 794)
a) wear and tear of fixed assets and intangible investments (+)		644 181	653 303	916 587	929 566
b) elimination of fixed assets and intangible investments		70 921	155 201	100 911	220 831
c) formation of accruals (except the accruals for insecure debts)		(55)	13 118	(78)	18 665
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign		1 105	(9 154)	1 572	(13 025)
e) incomes from the acknowledgement of financing		-	(16 241)	-	(23 109)
f) other interest incomes and the like incomes		(3)	(20)	(4)	(28)
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		235 754	236 463	335 448	336 457
2. Profit or loss before the corrections of impact of changes of		1 176 807	766 452	1 674 446	1 090 563
a) increase of the remainder of debtors' debts (-) or decrease (+)		(39 184)	27 367	(55 754)	38 940
b) increase of the remainder of reserves (-) or decrease (+)		(431 055)	(1 529 630)	(613 336)	(2 176 467)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		961 626	178 681	1 368 271	254 240
3 Gross cash flow from basic activity		1 668 194	(557 130)	2 373 626	(792 725)
4. Expenditures to interest payers		(235 754)	(236 463)	(335 448)	(336 457)
5. Expenditures for paying company's income tax and immovable property tax		(36 651)	47 144	(52 150)	67 080
6. Cash flow before extraordinary items		1 395 789	(746 449)	1 986 029	(1 062 101)
7. Cash flow from extraordinary items					
Net cash flow from basic activity		1 395 789	(746 449)	1 986 029	(1 062 101)
II. Cash flow from investment activities					
1. Purchase or alienation of shares or parts of related or associated companies		-	-	-	-
2. Granted loans		-	-	-	-
3. Purchase of fixed assets and intangible assets		(143 613)	(630 738)	(204 343)	(897 459)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		(631 449)	(39 253)	(898 471)	(55 852)
5. Incomes from selling fixed assets and intangible investments		2 085	5 132	2 967	7 302
6. Received interest		3	20	4	28
6. Net cash flow from investing activities		(772 974)	(664 839)	(1 099 843)	(945 981)
III. Cash flow from financing activities					
1. Received loans			3 428 158	-	4 877 829
2. Received financing from the EU		-	-	-	-
3. Received investment in capital		-	-	-	-
4. Expenditures to pay back loans		(1 083 483)	(946 087)	(1 541 657)	(1 346 161)
5. Expenditures for redemption of a hired fixed asset		-	(668 194)	-	(950 754)
6. Disbursed dividends		-	-	-	-
6. Net cash flow from financing activity		(1 083 483)	1 813 877	(1 541 657)	2 580 914
IV. Result of fluctuations of the exchange rate of foreign currency		(829)	57 260	(1 180)	81 474
V. Net cash flow of the year of account increase (+), decrease (-)		(461 497)	459 849	(656 651)	654 306
VI. Remainder of money or its equivalents at the beginning of the year of		480 774	20 925	684 080	29 774
VII. Remainder of money or its equivalents at the end of the year of		19 277	480 774	27 429	684 080

Board:

Jānis Bertrāns
Chairman of the boardJānis Mierkalns
Member of the boardGundars Maurs
Member of the boardGatis Zommers
Member of the board

Consolidated account of the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from reestimates on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Currency fluctuations due to recalculation of foreign	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
31.12.2007.	387 136	1 987	2 213 959	-	(32 619)	374 155		2 944 618
Currency fluctuations due to recalculation					685	4	(120 056)	(119 367)
Distribution of the profit of year 2007	-	-	409 126		(34 971)	(374 155)		-
Disbursed dividends	-	-						-
Reserves from reestimates on fixed assets				800 242				800 242
Profit of the year of account, corrected	-	-				(219 076)		(219 076)
31.12.2008.	387 136	1 987	2 623 085	800 242	(66 905)	(219 072)	(120 056)	3 406 417
Currency fluctuations due to recalculation							68 807	68 807
Reserves of recalculation	-	-	-					-
Distribution of the profit of year 2008	-	-	-		(219 072)	219 072		-
Reserves from reestimates on fixed assets	-	-	-	2 250				2 250
Profit of the year of account	-	-	-			188 408		188 408
31.12.2009	387 136	1 987	2 623 085	802 492	(285 977)	188 408	(51 249)	3 665 882

	Share capital	Share premium	Other reserves	Reserves from reestimates on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(loss) of the year of account	Currency fluctuations due to recalculation of foreign currency	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2007.	550 845	2 827	3 150 180	-	(46 413)	532 375	-	4 189 814
Currency fluctuations due to recalculation	-	-	-		975	6		(169 844)
Distribution of the profit of year 2007	-	-	582 134		(49 759)	(532 375)		-
Disbursed dividends	-	-	-		-	-		-
Reserves from revaluation of long-term			-	1 138 642				1 138 642
Profit of the year of account, corrected	-	-	-		-	(311 717)		(311 717)
31.12.2008.	550 845	2 827	3 732 314	1 138 642	(95 197)	(311 711)	(170 824)	4 846 895
Currency fluctuations due to recalculation	-	-	-		-	-	97 904	97 904
Reserves of recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2008	-	-	-	-	(311 711)	311 711	-	-
Reserves from reestimates on fixed assets	-	-	-	3 201	-	-	-	3 201
Profit of the year of account	-	-	-	-	-	268 080	-	268 080
31.12.2009	550 845	2 827	3 732 314	1 141 843	(406 909)	268 080	(72 921)	5 216 080

Board:

Jānis Bertrāns Chairman of the board	Jānis Mierkalns Member of the board	Gundars Maurs Member of the board	Gatis Zommers 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 result, from 2009 JSC “Saldus mežrūpniecība” prepare consolidated annual report, herein after Holding company.

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

1. Name of the company

Pakuļu sporta bāze / Pakuļi Sports Centre

Legal status of the company

Limited liability company

Registration number, registration date in commercial register

48503009010 November 21, 2002

Address

Mežvidi, Novadnieku pag. Saldus rajons LV 3801

Main types of business

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

Owner of the company

Joint-stock company Saldus mežrūpniecība, 100%

Year of account

January 1- December 31, 2009

2. Name of the company

Derevoobravativajutishij kombinat Nr.3 (DOK Nr.3)

Legal status of the company

Limited liability company (OOO)

Registration number, date, place

1066027046337 October 9, 2006

Address

Russia, Pskov Region

Zonalnoje sosse 44a, Pskov, Russia 180007

Main types of business

Logging

Owners of the company

Joint-stock company Saldus mežrūpniecība - 99%
DOK Nr.3 - 1%

Year of account

January 1- December 31, 2009

3. Name of the company

Saldus

Legal status of the company

Limited liability company (OOO)

Registration number, date, place

1056000426371 December 21, 2005

Adrese

Russia, Pskov Region

Zonalnoje sosse 44a, Pskov, Russia 180007

Main types of business

Purchase of timber

Owners of the company

Joint-stock company Saldus mežrūpniecība – 100 %

Year of account

January 1- December 31, 2009

2. Important accounting principles

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

Principles of preparation of financial statement

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

Currency and units used in the preparation of the financial statement

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

Consolidation

This consolidated financial statement includes financial statement of JSC Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., OOO DOK Nr.3, and OOO Saldus. Financial statements of subsidiary companies are prepared in the same year of account as the financial statement of the parent company by using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, costs, profit, loss and cash flow of JSC Saldus mežrūpniecība and the companies, which belong to JSC Saldus mežrūpniecība (subsidiary companies), in the way as if JSC Saldus mežrūpniecība and its subsidiary companies were one company, therefore untapped profit, mutual payments, mutually owned shares and other mutual deals between these companies, which belong to the holding company, were excluded. In the accounting of purchases made by subsidiary companies there was used the purchase method. Predominance of purchase costs over the real value of net assets earned in the holding company is accounted as intangible value.

Consolidation of foreign subsidiary companies

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

Changes in the accounting principles

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

Use of International Financial Reporting Standards (IFRS):

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

Use of calculation (continuation)

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

Operations in foreign currency

Currency, used in the holding company's accounting, is lats (Ls), except in OOO Saldus and OOO DOK Nr.3 where the used currency is RUB (Russian roubles).

All operations in foreign currencies are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia on the day of corresponding operation. On the last day of the year of account, funds and liabilities in foreign currency are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia. Differences in exchange rates, which occur because of payments made in different currencies, are disclosed in profit- loss calculation in their net value. Regarding the capital of OOO Saldus and OOO DOK Nr.3, conversion of currency, used in these companies, into currency, used in the holding company, is done by taking into consideration the exchange rate, which is valid on the day of balance, but regarding profit or loss items- the exchange rate, which is valid at the end of the year of account. The corrections of revaluation are shown in a separate item of the own capital.

	31.12.2009.	31.12.2008.
RUB/ LVL	0.0164	0.0171
EUR/ LVL	0,702804	0,702804

Intangible investments

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

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

Software licences, used in the holding company, are accounted in their acquisition value by taking away their accumulated amortization. Amortization is calculated by the use of linear method during the productive time of their use.

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

Fixed assets

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

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

Buildings, constructions	- 20 years (since 01.01.2008.)
Equipment and machinery	- 10 years
Forest equipment	- 5 years (since 01.01.2007.)
Timber processing lines	- 5 years (since 01.01.2007.)
Other fixed assets	- 5 years
Computing devises and data storage systems, software	- 5 years

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

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

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

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

Decrease of the value of assets

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

Costs of loans

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

Leasing

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

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

Reserves

Unfinished production

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

Materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers and other debtors

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

Money and its equivalents

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

Share capital

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

Profit per share

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

Credits and loans

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

Further loans will be shown in their amortized value.

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

Accruals

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

Accruals and deferred liabilities

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

Income acknowledgement

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

Rendering of services

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

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

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

Sale of goods

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

Interest

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

Dividends

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

Leasing incomes

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

Taxes

Company's income tax

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

Deferred income tax

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

Possible liabilities and assets

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

Employee benefits

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

Connected persons

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

Events after the end of the year of account

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

2. Segments of the holding company's activity

	logging		wood processing		Other undividable		Total	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	4 838 519	7 081 521	4 148 739	2 356 369	298 689	320 077	9 285 947	9 757 967
Production costs of sold production	(3 898 640)	(6 585 062)	(3 732 911)	(2 369 156)	(471 076)	(303 347)	(8 102 627)	(9 257 565)
Selling costs	(832 268)	(119 567)	(38 311)	(48 157)	(323)	(36 873)	(870 902)	(204 597)
General and administration costs	(12 582)	(159 097)	(3 033)	(68 463)	(148 207)	(107 400)	(163 822)	(334 960)
Other incomes/ (expenditures)	66 053	111 511	227 223	(76 063)	10 892	10 497	304 168	45 945

from economic activity

Segment's profit	161 082	329 306	601 707	(205 470)	(310 025)	(117 046)	452 764	6 790
Incomes from participation in the company's capital							-	-
Financial costs, net	(75 589)	(166 680)	(29 569)	(89 182)	(122 702)	(17 147)	(227 860)	(273 009)
Company's income tax (undivided)	-	-	-	-	-	57 971	-	57 971
Other taxes	(611)	(7 239)	(21 469)	(2 902)	(14 416)	(687)	(36 496)	(10 828)
Net result	84 882	155 387	550 669	(297 554)	(447 143)	(76 909)	188 408	(219 076)
Segment's assets	5 244 005	5 778 119	2 923 094	2 413 132	2 691 462	2 627 966	10 858 561	10 819 217
Segment's liabilities	3 706 771	4 726 933	4 050 398	1 887 539	3 101 392	4 204 745	10 858 561	10 819 217

	logging		wood processing		Other		Total	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	6 884 592	10 076 097	5 903 124	3 352 811	424 996	455 429	13 212 712	13 884 336
Production costs of sold production	(5 547 265)	(9 369 699)	(5 311 454)	(3 371 005)	(670 281)	(431 624)	(11 529 000)	(13 172 328)
Selling costs	(1 184 211)	(170 129)	(54 512)	(68 521)	(460)	(52 466)	(1 239 182)	(291 115)
General and administration costs	(17 903)	(226 375)	(4 316)	(97 414)	(210 880)	(152 816)	(233 098)	(476 605)
Other incomes/ (expenditures) from economic activity	93 985	158 666	323 309	(108 228)	15 498	14 936	432 792	65 374

Segment's profit	229 199	468 560	856 152	(292 357)	(441 126)	(166 541)	644 225	9 661
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(107 553)	(237 164)	(42 073)	(126 895)	(174 589)	(24 398)	(324 216)	(388 457)
Company's income tax (undivided)	-	-	-	-	-	82 485	-	82 485
Other taxes	(869)	(10 300)	(30 548)	(4 129)	(20 512)	(978)	(51 929)	(15 407)
Net result	120 776	221 096	783 531	(423 381)	(636 227)	(109 432)	268 080	(311 717)
Segment's assets	7 461 547	8 221 523	4 159 188	3 433 577	3 829 605	3 739 259	15 450 340	15 394 359
Segment's liabilities	5 274 260	6 725 820	5 763 197	2 685 726	4 412 883	5 982 813	15 450 340	15 394 359

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

The holding company has disclosed information through business segments.

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

Description of segments:

Logging

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

Wood processing

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

Other

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

5. Net turnover through geographical segments.

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

	31.12.2009 LVL	21.12.2008 LVL	31.12.2009 EUR	21.12.2008 EUR
Incomes from sales including	8 932 661	9 510 412	12 710 032	13 532 097
Latvia	8 845 342	8 994 468	12 585 788	12 797 975
European Union countries	107 518	365 417	152 984	519 942
Other countries	866	150 527	1 232	214 181
Incomes from rendering of services, including	353 286	247 555	502 681	352 239
Latvia	348 984	224 154	496 559	318 942
European Union countries		23 401	0	33 297
Other countries	4 302			
	9 285 947	9 757 967	13 212 712	13 884 336

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 September 30, 2009 holding company's financial assets and liabilities were not subjected to a substantial interest rate risk as their inclination from the real value of its financial assets and liabilities was insignificant.

Liquidity risk

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

Real value

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

Statement about the responsibility of management

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

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

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

