

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2010

PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2011

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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, Rīga
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 Merkalns (<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 Maris Elleris (<i>Māris Elleris</i>) – member of the Council 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 Report of economic activity of Year 2010

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.

Losses of A/s „Saldus mežrūpniecība” for the year 2010 after taxes are 162 745 LVL at the net turnover of 19 646 498 LVL, which means loss on one share issued of -0.42 LVL..

The 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. 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 report, there were no significant events that could make impact on the financial position of the holding that was fixed in the finance report.

Forecasts for financial statments and operational plans of 2011

Management of the company continues work on internal restructuring of the company aimed at adjusting to existing market situation and improvement of economic situation and financial indicators of the company. Management policy is not based on wide ranging economic activities, rather than on development of economic activities in two interrelated areas, by increasing production volumes, increasing productivity of work.

Due to political events in the Near East at the moment demand for sawn timber in the region has decreased, which was the target supply region of the company.

Production and sale volumes in forestry in 2011 are planned to reach 350 000m³ per year. The planned volume of sawn timber products production and sale is 200 000 m³ per year.

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

April 29.2011

Valde:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gundars Maurs
valdes loceklis

Gatis Zommers
valdes loceklis

Statement of Management Responsibility

Management is responsible for preparing financial statements based on the initial accounting records of each year of account, which truly reflects the company's financial position at the end of the year of account, as well as results of operations and cash flows for the period.

The Management confirms that, in preparing this report for the period ending on 31 December 2010, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

Profit or loss calculation

	Piezīme	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Net turnover	4	19 646 498	9 173 210	27 954 448	13 052 302
Production costs of the sold production	5	(18 561 546)	(8 059 780)	(26 410 701)	(11 468 034)
Gross profit		1 084 952	1 113 430	1 543 748	1 584 268
Selling costs	6	(818 045)	(835 997)	(1 163 973)	(1 189 517)
General administration costs	7	(192 898)	(158 529)	(274 469)	(225 566)
Other income from company's economic activity	8	407 571	207 911	579 921	295 831
Other expenditures from company's economic activity	8	(489 188)	(100 048)	(696 052)	(142 355)
Profit or loss from economic activity		(7 608)	226 767	(10 825)	322 660
Other interest income and the like income				-	-
Other interest payments and the like payments	9	(157 409)	(206 753)	(223 973)	(294 183)
Profit or loss before extraordinary items and taxes		(165 017)	20 014	(234 798)	28 477
Extraordinary income					
Extraordinary expenditures					
Profit or loss before taxes		(165 017)	20 014	(234 798)	28 477
Company's income tax	10		-	-	-
Company's deferred income tax	11	15 490	82 205	22 040	116 967
Other taxes	12	(13 218)	(12 145)	(18 808)	(17 281)
Profit or (loss)		(162 745)	90 074	(231 565)	128 164
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		(0,42)	0,23	(0,60)	0,33

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns valdes priekšsēdētājs	Jānis Mierkalns valdes loceklis	Gundars Maurs valdes loceklis	Gatis Zommers valdes loceklis
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Balance sheet

	Note	31.12.2010. LVL	31.12.2009. LVL	31.12.2010. EUR	31.12.2009. EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like items		17 837	25 819	25 380	36 737
Company's intangible value		-	-	-	-
Advance payments for intangible investments					
TOTAL	13	17 837	25 819	25 380	36 737
Fixed assets					
Land, premises and buildings		2 781 578	2 883 155	3 957 829	4 102 360
Equipment and machinery		1 140 975	1 116 631	1 623 461	1 588 823
Other fixed assets		18 205	15 227	25 903	21 666
Unfinished constructions		836 041	635 342	1 189 579	904 010
Advance payments for fixed assets		1 405 810	29 728	2 000 287	42 299
TOTAL	14	6 182 609	4 680 083	8 797 060	6 659 158
Biological assets		636 134	553 296	905 137	787 269
Long-term financial investments					
Participation in the capital of related companies		415 142	524 308	590 694	746 023
Loans to the related companies		731 541	756 300	1 040 889	1 076 118
TOTAL	15	1 146 683	1 280 608	1 631 583	1 822 141
TOTAL LONG-TERM INVESTMENTS		7 983 263	6 539 806	11 359 160	9 305 306
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		39 313	8 053	55 937	11 458
Biological assets		337 995	298 760	480 924	425 097
Unfinished production		2 843 643	1 300 105	4 046 139	1 849 883
Finished production and goods for sale		142 978	75 563	203 439	107 516
Advance payments for goods		160 055	1 422 160	227 738	2 023 551
TOATL	16	3 523 984	3 104 641	5 014 177	4 417 506
Noncurrent assets held for sale					
Fixed assets held for sale	18	210 197	127 090	299 083	180 833
Debtors					
Debts of buyers and customers	17	371 737	651 791	528 934	927 415
Debts of subsidiaries	17	42 524	42 524	60 506	60 506
Other debtors	18	141 894	84 508	201 897	120 244
Expenditures of the next periods	19	37 510	8 257	53 372	11 749
TOTAL		593 665	787 080	844 709	1 119 914
Money and its equivalents	20	8 536	17 598	12 146	25 040
TOTAL CURRENT ASSETS		4 336 382	4 036 409	6 170 116	5 743 293
TOTAL ASSETS		12 319 645	10 576 215	17 529 276	15 048 598

The annex is an integral part of this financial statement.

Valde:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gundars Maurs
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Gatis Zommers
valdes loceklis

Balance sheet (continuation)

Shareholders'equity and liabilities

	Note	31.12.2010. LVL	31.12.2009. LVL	31.12.2010. EUR	31.12.2009. EUR
Shareholders'equity					
Share capital	21	387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	802 492	1 141 843	1 141 843
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		61 949	(28 125)	88 145	(40 018)
Retained earnings from the year of account		(162 745)	90 074	(231 565)	128 164
TOTAL		3 713 904	3 876 649	5 284 409	5 515 975
Total shareholders'equity		3 713 904	3 876 649	5 284 409	5 515 975
Liabilities					
Long-term liabilities					
Deferred company's income tax		88 848	104 338	126 419	148 460
Long-term loans from credit institutions	24	820 310	1 454 422	1 167 196	2 069 456
Long-term part of financial lease liabilities	24	84 051	222 251	119 594	316 235
Other creditors	25	925 359	1 388 038	1 316 667	1 975 000
Long-term part of incomes from next periods	30	540 393	65 888	768 910	93 750
TOTAL		2 458 961	3 234 937	3 498 786	4 602 901
Short-term liabilities					
Short-term loans from credit institutions	24	2 243 190	1 734 560	3 191 772	2 468 057
Short-term part of financial lease	24	138 199	180 763	196 639	257 203
Advance payments received from buyers		-	135	-	192
Debts to suppliers and contractors		3 459 618	1 297 151	4 922 593	1 845 680
Liabilities provisions	29	17 041	12 566	24 247	17 880
Accured liabilities	28	119 527	75 561	170 072	107 514
Taxes payable	26	93 499	89 285	133 037	127 041
Other creditors	27	59 465	58 367	84 611	83 049
Incomes from the next periods short-term part	30	16 241	16 241	23 109	23 109
Unpaid dividends from the previous years				-	-
TOTAL		6 146 780	3 464 629	8 746 080	4 929 723
Total liabilities		8 605 741	6 699 566	12 244 866	9 532 624
Total shareholders'equity and liabilities		12 319 644	10 576 215	17 529 276	15 048 598

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Cash flow statement

I. Cash flow from basic activity		2010	2009	2010	2009
		LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes:		(165 017)	20 014	(234 798)	28 477
a)	wear and tear of fixed assets and intangible investments (+)	558 871	543 073	795 202	772 723
b)	elimination of fixed assets and intangible investments	9 103	44 942	12 952	63 947
c)	formation of accruals (except for the accruals for insecure debts)	-	27 539	-	39 184
d)	profit (-) or loss (+) from fluctuations of exchange rate	1 348	10 035	1 918	14 279
e)	income from the acknowledgement of financing	(16 241)	(16 241)	(23 109)	(23 109)
f)	revaluation of long-term investments	109 184		155 355	
f)	revaluation of biological assets	(82 838)	-	(117 868)	-
h)	interest payments and the like expenditures	123 556	206 753	175 804	294 183
2. Profit or loss before the corrections of the impact of balance		537 966	836 115	765 457	1 189 684
a)	increase (+) or decrease (-) of debtors debt	308 355	150 160	438 750	213 658
b)	increase (+) or decrease (-) of the reserves of accruals	(502 450)	(501 554)	(714 922)	(713 647)
c)	increase (+) or decrease (-) of the remainder of debts payable to	2 169 437	892 561	3 086 831	1 270 000
3. Gross cash flow from basic activity		2 513 308	1 377 282	3 576 115	1 959 696
4. Expenditures to pay interest payments		(123 556)	(206 753)	(175 804)	(294 183)
5. Expenditures to pay company's income tax and immovable property tax		(98 302)	(4 026)	(139 871)	(5 728)
6. Cash flow before extraordinary items		2 291 450	1 166 503	3 260 440	1 659 784
8. Net cash flow from basic activity		2 291 450	1 166 503	3 260 440	1 659 784
II. Cash flow from investments					
2. Loans repayments		14 240	-	20 262	-
3. Acquisition of fixed assets and intangible investments		(105 787)	(241 664)	(150 521)	(343 857)
4. Expenditures for advance payments for fixed assets and unfinished		(542 380)	(126 593)	(771 737)	(180 126)
5. Income from selling fixed assets and intangible investments		(1 391 602)	(580 116)	(1 980 071)	(825 431)
6. Interest received		3 195	-	4 546	-
6. Net cash flow from investments		(2 022 334)	(948 373)	(2 877 522)	(1 349 413)
III. Cash flow from financing activities					
2. Loans repayments credit institutions		(125 481)	-	(178 543)	-
2. EU financing received		490 746	-	698 269	-
3. Received investments in capital				-	-
4. Expenditures for paying back loans		(462 679)	(678 740)	(658 333)	(965 760)
5. Expenditures for redemption of asset that was hired		(180 764)	-	(257 204)	-
6. Paid out dividends		-	-	-	-
6. Net cash flow from financing activities		(278 178)	(678 740)	(395 812)	(965 760)
IV. The result of the exchange rate fluctuations		-	-	-	-
V. Net cash flow of the year of account increase (+), decrease (-)		(9 062)	(460 610)	(12 894)	(655 389)
VI. Money and its equivalents balance at the beginning of the year of		17 598	478 208	25 040	680 429
VII. Money and its equivalents balance at the end of the year of account		8 536	17 598	12 146	25 040

The annex is an integral part of this financial statement

Valde:

Joint-stock company „Saldus mežrūpniecība”

Annual report 2010

Address: Kuldigas 86c, Saldus, LV-3801,

Saldus District., Republic of Latvia

Single registration number: 40003020121

Jānis Bertrāns
valdes priekšsēdētājs

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Statement on the changes in own capital

	Share capital	Share premium	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Total own capital
	LVL	LVL	LVL	LVL		LVL	LVL
December 31, 2008 (adjusted*)	387 136	1 987	800 242	2 623 085		(28 125)	3 784 325
Distribution of profit of the year 2009	-	-			28 125	28 125	56 250
Revaluation reserves	-	-	2 250				2 250
Paid out dividends	-	-				-	-
Profit of the year of account,(adjusted*)	-	-				90 074	90 074
December 31, 2008	387 136	1 987	802 492	2 623 085	28 125	90 074	3 932 899
Distribution of the year 2010 profit	-	-			90 074	(90 074)	-
Revaluation reserves	-	-	-				-
Calculated dividends	-	-					-
Profit of the year of account	-	-		-		(162 745)	(162 745)
December 31, 2010	387 136	1 987	802 492	2 623 085	118 199	(162 745)	3 770 154
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2008	550 845	2 827	1 138 642	3 732 314	-	(40 018)	5 384 609
Distribution of the year 2008 profit	-	-	-	-	40 018	40 018	80 037
Revaluation reserves	-	-	3 201	-	-	-	3 201
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	128 164	128 164
December 31, 2009	550 845	2 827	1 141 843	3 732 314	40 018	128 164	5 596 011
Distribution of the year 2010 profit	-	-		-	128 164	(128 164)	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-		-	-	-	-
Profit of the year of account	-	-	-	-	-	(231 565)	(231 565)
	550 845	2 827	1 141 843	3 732 314	168 182	(231 565)	5 364 446

*Adjustments are explained in note 34.

The annex is an integral part of this financial statement

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Annex to the financial statement

1. Corporative information

The joint stock company „Saldus mežrūpniecība” (hereinafter - the Company) was registered with the Republic of Latvia Enterprise Register on 26 August 1991 and with the Republic of Latvia Commercial Register on 8 May 2004. Company main economic activity will be logging and production of sawn timber.

2. Important accounting principles

Basis of preparation

The financial statements present only the financial position of JSC „Saldus mežrūpniecība” as a stand-alone entity; the financial position of companies belonging to the JSC „Saldus mežrūpniecība Group (i.e. JSC „Saldus mežrūpniecība and its subsidiaries) is presented in a separate set of consolidated financial statements.

The financial statements of JSC „Saldus mežrūpniecība have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2010 through 31 December 2010.

Use of calculations (continuation)

When preparing financial statements, the management have to base on certain calculations and assumptions, which influence the remainders of the balance and the profit or loss posts shown in particular statements as well as the amount of possible liabilities. Future events may have an impact on assumptions which were taken into consideration when separate calculations were made. Any influence of calculations is shown in the financial statement at the moment of their determination.

Decrease of the value of assets

At the end of each year the Holding audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Holding has to carry out the annual audit of the decrease of the value of assets, the Holding establishes the recoverable amount for each asset. The recoverable amount is the biggest amount of selling value from which is subtracted expenditures related to the selling value and use-values. In order to determine the decrease of value, assets are grouped in the lowest possible level for which it is possible to separately determine cash flows (cash flow generating assets). If the balance value of assets is bigger than its recoverable amount, the decrease of the value of asset is acknowledged and the assets are written of to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity

Foreign currency translation

The functional and presentation currency of the Company is Latvian lats (LVL). Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Currency exchange rates established by the Bank of Latvia:.

	31.12.2010	31.12.2009
	Ls	Ls
1 RUB	0.0176	0.0164
1 EUR	0,702804	0,702804

Intangible investment

Intangible assets include software licences used in the company, intangible value and other intangible assets concerned with operations of the Group Holding company or Group subsidiary.

Intangible assests are accounted for their cost value which is depreciated for the useful life of assets on a sraight line basis. Should any events or conditions indicate that accounting value of intangible assets be non-recoverable, the value of respective intangible assets is revalued in order to establish decrease of accounting value of intangible assets. Losses resulting from decrease of value are accounted when the accounting value of intangible assets increases the recoverable amount.

Software licences used in the company are accounted for their cost value less depreciation accrued.

Depreciation is calculated for the whole period of useful life by a straight line method. Costs associated with maintenance of software are accounted as costs in the income statement. See Paragraph 12 of the Annex.

2. Summary of significant accounting policies (continuation)

Property, plant and equipment

Depreciation is calculated starting from the next month following launch of assets for use or operation. Depreciation is calculated separately for each part of property, plant and equipment the costs of which are significant against total costs of this asset. When property, plant and equipment is sold or depreciated, the initial cost and depreciation accrued is excluded from accounting and loss or profit from sale of assets is reflected in the income statement.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	-20 years (starting from 01.01.2008.)
Equipment and machinery	- 10 years
Forestry equipment	- 5 years (starting from 01.01.2007.)
Timber processing lines	- 5 years (starting from 01.01.2007.)
Other property, plant and equipment	- 5 years
Data processing and storage equipment, software	- 5 years

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Construction in progress represents assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Movement of company property, plant and equipment is shown in the Paragraph 14 of the Annex.

Bioloģiskie aktīvi

2008. gadā Uzņēmuma vadība pieņēma lēmumu mainīt grāmatvedības uzskaites politiku mežaudzēm, atbilstoši izmaiņām LR Gada pārskatu likumā. Saskaņā ar izmainīto uzskaites politiku, mežaudzes tiek pārvērtētas kā bioloģiskie aktīvi. Pārvērtējums tiek balstīts uz aktualizētajiem Valsts Meža dienesta datiem. Mežaudzes sākotnēji tiek uzskaitītas iegādes vērtībā, bet pēc pirmreizējās izstrādes mežaudzes atlikusī daļa tiek uzskaitīta patiesajā vērtībā. Patiesā vērtība tiek noteikta, aprēķinot bioloģisko aktīvu neto naudas plūsmas tagadnes vērtību, 2010. gadā pielietojot diskonta likmi 6 %. The average purchase price of square meter of felling was calculated assuming the average felling purchase price per m3 in 2010. which was 16.72 Ls/m3. Starpību starp uzskaites vērtību un pārvērtēšanā noteikto vērtību atzīst kā pārskata perioda ieņēmumus vai izdevumus atbilstoši tam, vai pārvērtēšanas rezultātā vērtība palielināta vai samazināta, un to uzrāda peļņas un zaudējumu aprēķina postenī - neto apgrozījums vai pārdotās produkcijas ražošanas izmaksas. Bioloģiskie aktīvi, kuru izstrāde nav iespējama gada laikā, gada pārskatā ir uzrādīti bilancē pārdošanai turētu ilgtermiņa ieguldījumu sastāvā vai pamatlīdzekļu sastāvā.

Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the

investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

2. Summary of significant accounting policies (cont'd)

Reserves

Unfinished products

Reserves are accounted in their lowest cost value and net selling value. Cost is calculated by applying the FIFO method- first in, first out. Net selling value is the calculated selling price which is normally used in business by subtracting the expenditures needed to finish and sell products.

Raw materials are accounted in their purchase costs.

Finished and unfinished products are accounted in their direct costs (raw materials and labour) by adding indirect expenditures needed for their production (salaries, electricity, wear and tear and other related costs which would be used in usual production volumes).

Finished products are accounted in their lowest cost or net selling value. Net selling value is the calculated selling price in normal business activity by subtracting expenditures which will be needed to finish and sell the products.

The company regularly estimates if the value of reserves has not decreased due to aging or damage. Corresponding loss is included in the profit or loss calculation as production costs of sold products. When damaged products are physically destroyed, the value of reserves and the value of appropriate reserves are written off.

Debts of buyers and customers

Debts of buyers and customers in the balance sheet are shown according to their initial amount except for reserves for insecure debts. Reserves for insecure debts are calculated when it is unlikely that the whole amount of debt could be recovered. Debts are written off when the recovery of it is believed impossible.

Money and its equivalents

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

Accruals

Accruals are acknowledged if the Holding has an obligation (legal or arising from practise) caused by a past event or if there is a probability that in order to meet the liabilities the Holding will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Holding anticipates that expenditures needed to make accruals will be fully or partly paid back, refund of these expenditures is acknowledged as a separate asset only when it is practically clear that these expenditures will be refunded. Expenditures related to accruals in the profit or loss calculation are shown, except for the sums which will be needed to reimburse expenditures.

Credits and loans

Credits and loans initially are shown in their initial value, which is calculated by subtracting or adding to the real value of credit or loan expenditures related to the receiving or granting the loan.

Lease

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income as interest payments.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term and are accounted in the income statement for the whole lease period according to straight-line basis.

More detailed information on this finance lease is available in Note 22.

Income recognition

Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:

2. Summary of significant accounting policies (cont'd)

Rendering of services

Company income is mainly derived from rendering of transport services, and timber processing related services. Income from provision of services is accounted according to the volume of respective service rendered. Revenue is recognised in the period when the services are rendered.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is when the Company has delivered products to the buyer and the buyer has accepted products according to the contract provisions and satisfactory evidence is acquired as to receipt of debtors receivables.

Interest

Interest is recognised according to savings method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Income from lease

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% set in legislative acts of the Republic of Latvia on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as temporary difference in interest or securities in excess of set limits and tax losses carried forward for the subsequent five years. Asset of deferred corporate income tax is only reflected in the financial statements if sufficient evidence is acquired as to the planned recoverability of it.

Associated persons

Associated persons are Holding's parent company's subsidiary companies and shareholders who can significantly influence the activity of the Holding's parent company, the members of council and board, their close relatives and companies in which the said persons have significant impact or control.

Possible liabilities and assets

In this financial statement the possible liabilities are not acknowledged. As liabilities they are acknowledged only when the possibility that funds will be spent becomes pretty plausible. Possible assets in this financial statement are not acknowledged, but they are shown only when plausibility that economic gains related to a transaction will reach the Holding is pretty grounded.

Share capital

Company is a joint stock company. Company share capital is dividend in common shares. All shares are denominated and are dematerialised. More detailed information on spread of share capital is given in the Note 21.

Accruals and deferred liabilities

Accrual and deferred liabilities are accounted for cost and expense to be recognised at the moment of occurrence.

2. Summary of significant accounting policies (cont'd)

Events after the end of the year of account

After the year of account, in the financial statement are shown the events which give additional information about the Holding's financial situation on the date of drawing up the balance sheet (correcting events). If the events after the end of the year of account are not correcting, they are shown in the notes of the annex to the financial statement only if they are significant.

3. Segments of the Holding activities

	logging		timber processing		Other and undistributable		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	9 180 503	5 026 631	10 375 043	4 052 320	90 952	94 259	19 646 498	9 173 210
Production costs of sold products	(7 839 875)	(4 075 513)	(10 425 538)	(3 630 152)	(296 133)	(354 115)	(18 561 546)	(8 059 780)
Selling costs	(763 257)	(806 240)	(14 949)	(29 623)	(39 839)	(134)	(818 045)	(835 997)
General administration costs	(4 336)	(20 944)	(4 958)	(1 928)	(183 604)	(135 657)	(192 898)	(158 529)
Other incomes/expenditures from economic activity	115 635	42 546	87 357	44 035	(284 609)	21 282	(81 617)	107 863
Segment profit	688 670	166 480	16 955	434 652	(713 233)	(374 365)	(7 608)	226 767
Financial expenditures, net	(48 475)	(75 549)	(13 639)	(3 355)	(95 295)	(127 849)	(157 409)	(206 753)
Company income tax (undistributable)					15 490	82 205	15 490	82 205
Other taxes	-	(611)	(4 476)	(3 102)	(8 742)	(8 432)	(13 218)	(12 145)
Net result	640 195	90 320	(1 160)	428 195	(801 780)	(428 441)	(162 745)	90 074
Segment assets	5 635 006	5 629 728	6 002 506	2 237 383	612 500	2 639 471	12 250 012	10 506 582
Segment liabilities	4 900 005	4 585 397	5 512 505	1 688 779	1 837 502	4 232 406	12 250 012	10 506 582

	logging		timber processing		Other and undistributable		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	13 062 679	7 152 252	14 762 356	5 765 932	129 413	134 118	27 954 448	13 052 302
Production costs of sold products	(11 155 137)	(5 798 933)	(14 834 204)	(5 165 241)	(421 359)	(503 860)	(26 410 701)	(11 468 034)
Selling costs	(1 086 017)	(1 147 176)	(21 271)	(42 150)	(56 686)	(191)	(1 163 973)	(1 189 517)
General administration costs	(6 170)	(29 801)	(7 055)	(2 743)	(261 245)	(193 023)	(274 469)	(225 566)
Other incomes/expenditures from economic activity	164 534	60 538	124 298	62 656	(404 962)	30 282	(116 131)	153 475
Segment profit	979 889	236 880	24 125	618 454	(1 014 839)	(532 673)	(10 825)	322 660
Financial expenditures, net	(68 974)	(107 497)	(19 407)	(4 774)	(135 593)	(181 913)	(223 973)	(294 183)
Company income tax	-	-	-	-	22 040	116 967	22 040	116 967
Other taxes	-	(869)	(6 369)	(4 414)	(12 439)	(11 998)	(18 808)	(17 281)
Net result	910 915	128 514	(1 651)	609 267	(1 140 830)	(609 617)	(231 565)	128 164
Segment assets	8 017 891	8 010 381	8 540 797	3 183 509	871 509	3 755 629	17 430 197	14 949 519
Segment liabilities	6 972 079	6 524 432	7 843 588	2 402 916	2 614 530	6 022 171	17 430 197	14 949 519

3. Segments of the Holding activities (continuation)

The Holding shows information through particular segments.

The above table shows the Holding's profit or loss posts and the distribution of assets and liabilities through segments:

The management of the Holding believe that it is not useful to prepare cash flow statements through different segments.

Segment descriptions:

Logging

Income in this segment mainly arises from selling of round timber, obtained in logging, and timber transportation in the territory of Latvia and from the income from logging services.

Timber processing

Income in this segment mainly arises from selling of sawn timber which was obtained in the production process and from rendering of different services which are related to timber processing.

Other

Collected lease payments for the use of the company's real estate and other income which is not related to the company's economic activity.

4. Net turnover through geographical segments

Since the economic activity of the Holding is mainly performed in Latvia and all significant assets are situated in Latvia, the management believe that it is not useful to prepare a statement through geographical segments as the amount of income from different geographical segments does not exceed 10 % of total income.

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Income from sales, int. Al.	18 763 744	8 819 924	26 698 402	12 549 621
Latvia	18 763 744	8 819 058	26 698 402	12 548 389
the EU countries		866	0	1 232
Other countries			1 256 046	0
Income from rendering of services, int. Al.	882 754	353 286	1 256 046	502 681
Latvia	882 754	353 286	1 256 046	502 681
Other countries			0	
	19 646 498	9 173 210	27 954 448	13 052 302

5. Production cost of products sold

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
<u>Production cost of products sold</u>				0,702804
Salary of employees	985 505	680 722	1 402 247	968 580
Social insurance costs	246 480	163 326	350 709	232 392
Reserve for vacation pays	41 048	27 385	58 406	38 965
Doubtful debtors reserve	198 526	14 503	282 477	20 636
Depreciation of property, plant and equipment	509 528	543 073	724 993	772 723
Costs of purchase of materials	364 178	376 035	518 179	535 050
Stem fee (purchase of cutting rights)	3 206 593	1 616 642	4 562 571	2 300 274
Purchase costs of sawn timber	7 341 104	2 663 738	10 445 450	3 790 158
Purchase costs of products in retail trade	70 942	66 885	100 941	95 169
Electricity and heating costs	170 293	133 784	242 305	190 357
Production related contractors expenses	4 760 728	1 221 884	6 773 906	1 738 584
Production equipment maintenance costs	620 717	501 840	883 201	714 054
Other services received	45 938	49 963	65 364	71 091
	18 561 580	8 059 780	26 410 749	11 468 034

6. Cost of sale

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Adevertisement costs, market research, marketing	39 882	13 403	56 747	19 071
Transportation costs of goods	718 942	809 484	1 022 962	1 151 792
Other production costs	59 221	13 110	84 264	18 654
	818 045	835 997	1 163 973	1 189 517

7. General and administration costs

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Salaries to employees	65 288	78 086	92 896	111 106
Social insurance costs	15 750	18 745	22 410	26 672
Unused vacation pay reserve	2 918	3 222	4 152	4 584
Maintenance of administration capital assets	49 345	27 043	70 212	38 479
Expense associated with maintenance of adminis	18 277	8 701	26 006	12 380
Office maintenance costs	30 849	6 866	43 894	9 769
Annual report expenses	1 500	2 200	2 134	3 130
Banking expenses	8 971	13 666	12 765	19 445
	192 898	158 529	274 469	225 566

8. Other operating income and expense

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
<u>Other income</u>				
Income from services	273695	55887	389 433	79 520
Net income from sale of long term investment		34 575	0	49 196
Income from lease of fixed assets	85 143	101 208	121 148	144 006
Financing of the EU structural funds and LAD	32 492		46 232	0
Income of future periods	16 241	16 241	23 109	23 109
	407 571	207 911	579 921	295 831
<u>Other expense</u>				
Net loss from exclusion of long term investment	3 983		5 667	0
Net loss from revaluation of long term investment	109 166		155 329	
Dues paid for land plots used in production	31 832	18 070	45 293	25 711
Security costs	249 587	20 362	355 130	28 973
Other expense for provision of economic activities	94 620	61 616	134 632	87 672
	489 188	100 048	696 052	142 355

9. Financial income/ (expense), net

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Income				
Income from currency exchange	141	1 571	201	2 235
Other income	41	773	58	1 100
Expense	182	2 344	259	3 335
Currency exchange expense	2 293	11 606	3 263	16 514
Donations	9 100	8 000	12 948	11 383
Fines paid	7 298	6 465	10 384	9 199
Other expense	15 344	1 277	21 833	1 817
Loan interest calculated	117 128	165 132	166 658	234 962
Financial lease interest recognised	6 428	16 617	9 146	23 644
	157 591	209 097	224 232	297 518

10. Corporate income tax

	LVL	LVL	EUR	EUR
Current corporate income tax charge for the reporting year		35 084	0	49 920
Adjustment for corporate income tax calculated for 2009*		-35 084		-49 920
	0	0	0	49 920
Deferred corporate income tax	15 490	82 205	22 040	116 967
	15 490	82 205	22 040	116 967

*Adjustments are explained in note 34.

11. Deferred corporate income tax:

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
<i>Liabilities of the deferred company income tax</i>				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	2 834 400	2 938 386	4 032 988	4 180 947
Residual value of capital assets needed for taxes	1 859 430	1 847 310	2 645 731	2 628 485
Tax losses not covered	263 123	319 928	374 390	455 217
Accruals for holidays	119 527	75 561	170 072	107 514
Temporary difference	592 320	695 587	842 795	989 731
Liabilities of deferred tax	88 848	104 338	126 419	148 460

A rate of 15% is applied to calculations of deferred tax.

12. Other taxes

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Real estate tax	13 218	12 145	18 808	17 281
	13 218	12 145	18 808	17 281

13. Intangible investment

	Software	Intangible value	Advance payments for intangible assets	Total
	LVL	LVL	LVL	LVL
As at 31.12.2009.	54 008			54 008
2010 Cost	768			768
Impairment				-
As at 31.12.2010.	54 776	-	-	54 776
Amortisation accrued 31.12.2009.	28 189			28 189
2010 Amortisation	8 750			8 750
Impairment				-
Ammortisation accrued 31.12.2010.	36 939	-	-	36 939
As at 31.12.2009.	25 819	-	-	25 819
As at 31.12.2010.	17 837	-	-	17 837
Amortisation rate (by linear method)	5 gadi			
	EUR	EUR	EUR	EUR
As at 31.12.2009.	76 846	-	-	76 846
2010 Acquisitoins	1 093	-	-	1 093
Impairment	-	-	-	-
As at 31.12.2010.	77 939	-	-	77 939
Amortisation accrued 31.12.2009.	40 109	-	-	40 109
2010 Amortisation	12 450	-	-	12 450
Impairment	-	-	-	-
Ammortisation accrued 31.12.2010.	52 559	-	-	52 559
As at 31.12.2009.	36 737	-	-	36 737
As at 31.12.2010.	25 380	-	-	25 380

14. Capital assets

	Land, buildings and systems	Biological assets	Equipment and machinery	Unfinished construction	Advance payments for fixed assets	Total, except for advance payments for capital assets
	LVL	LVL	LVL	LVL	LVL	LVL
Accounting value 31.12.2009	3 444 635	2 609 780	62 760	635 342	29 728	6 782 245
2010 Purchase	68 901	461 815	10 156	200 699	1 376 082	2 117 653
Liquidity	(90 028)	(11 835)	(2 340)			(104 203)
Reconstruction*						-
Reshuffle						-
Accounting value 31.12.2010	3 423 508	3 059 760	70 576	836 041	1 405 810	8 795 695
Accrued wear and tear 31.12.2009.	561 480	1 493 149	47 533			2 102 162
Wear and tear	114 574	428 383	7 164			550 121
2010 Wear and tear of liquid assets	(34 125)	(2 747)	(2 326)			(39 198)
Reshuffles						-
Accrued wear and tear 31.12.2010	641 929	1 918 785	52 371	-	-	2 613 085
Residual value 31.12.2009.	2 883 155	1 116 631	15 227	635 342	29 728	4 680 083
Residual value 31.12.2010	2 781 579	1 140 975	18 205	836 041	1 405 810	6 182 610

Rate of wear and tear (linear method)	5-20 years	4-10 years	3-10 years			
	EUR	EUR	EUR	EUR	EUR	EUR
Accounting value 31.12.2009	4 901 274	3 713 382	89 299	904 010	42 299	9 650 265
2010 Purchase	98 037	657 104	14 451	285 569	1 957 988	3 013 149
Liquidity	(128 098)	(16 840)	(3 330)	-	-	(148 268)
Reconstruction*	-	-	-	-	-	-
Put into operation	-	-	-	-	-	-
Accounting value 31.12.2010	4 871 213	4 353 646	100 421	1 189 579	2 000 287	12 515 147
Accrued wear and tear 31.12.2009.	798 914	2 124 560	67 633	-	-	2 991 106
Wear and tear	163 024	609 534	10 193	-	-	782 752
2010 Wear and tear of liquid assets	(48 556)	(3 909)	(3 310)	-	-	(55 772)
Reshuffles	-	-	-	-	-	-
Accrued wear and tear 31.12.2010	913 383	2 730 185	74 517	-	-	3 718 086
Residual value 31.12.2009.	4 102 360	1 588 823	21 666	904 010	42 299	6 659 159
Residual value 31.12.2010	3 957 830	1 623 461	25 904	1 189 579	2 000 287	8 797 061

Rate of wear and tear (linear method) 5-20 years 4-10 years 3-10 years

No cadastral value has been set for buildings owned by the company.

Cadastral value of lands at the balance date amounts to 497 238 Ls (707 506 EUR).

15. Investment in related companies

	Shares owned %	Investment value	Depreciation of value	Accounting value of investment as at 31.12.2010
	LVL	LVL	LVL	LVL
SIA Pakuļu sporta bāze	100	146 000	109 166	36 834
ООО «Салдус»	100	5 190		5 190
ООО «Деревообрабатывающий комбинат № 3»	100	373 118		373 118
total long term investment		524 308	109 166	415 142
	EUR	EUR	EUR	EUR
SIA Pakuļu sporta bāze	100	102 609	76 722	25 887
ООО «Салдус»	100	3 648		3 648
ООО «Деревообрабатывающий комбинат № 3»	100	262 229		262 229
total loans to related companies:		368 486	76 722	291 763

15. Loans in related companies

	2010	2009	2010	2009
	LVL	LVL	EUR	EUR
SIA Pakuļu sporta bāze		99 899	0	142 143
ООО «Салдус»	19 416	3 616	27 626	5 145
ООО «Деревообрабатывающий комбинат № 3»	712 126	652 785	1 013 264	928 829
total loans to related companies:	731 542	756 300	1 040 890	1 076 118

	LVL	EUR
Outstanding value of the loan 31.12.2009 (+)	756 300	531 531
Unsecure loan provisions 31.12.2009 (-)		0
Accounting value as at 31.12.2009	756 300	531 531
Amounts lendend in 2010 (+)	105 787	74 348
Repaid amounts in 2010 (-)	15 588	10 955
Provisions for unsecure loan amounts in 2010 (+/-)	114 958	80 793
Outstanding loan amount as at 31.12.2010.	731 541	514 130
Total amount of provisions for unsecured debts as at 31.12.2010.	114 958	80 793
Accounting value as at 31.12.2010.	731 541	594 923

16. Inventories

	2010	2009	2010	2009
	LVL	LVL	EUR	EUR
Materials, spare parts, inventory	39 313	8 053	55 937	11 458
Biological assets	337 995	298 760	480 924	425 097
Unfinished goods (round timber in forest and in mill)	2 326 223	1 083 212	3 309 917	
Timber in production	517 420	216 893	736 222	308 611
<i>total unfinished goods:</i>	<i>2 843 643</i>	<i>1 300 105</i>	<i>4 046 139</i>	<i>308 611</i>
Ready sawn materials products	107 645	45 319	153 165	64 483
Goods in retail trade shop	35333	30244	50 274	43 033
<i>total ready products and goods for sale</i>	<i>142 978</i>	<i>75 563</i>	<i>203 439</i>	<i>107 516</i>
Advance payments for goods	160 055	1 422 160	227 738	2 023 551

No non-marketable stock was recorded as per inventory performed at 31.12.2010.

17. Trade receivables

	2010	2009	2010	2009
	LVL	LVL	EUR	EUR
Accounting value of trade receivables	515 223	726 213	733 096	1 033 308
Doubtful debt reserve (-)	143 486	14 503	204 162	20 636
Accounting value	371 737	711 710	937 258	1 053 944
Debts of associated companies	42 524	42 524	60 506	60 506
Spread by currencies:				
LVL	12 499	12 499	17 784	17 784
EUR	30 025	30 025	42 722	42 722

Balance of outstanding debts are reflected in the balance sheet for their net value. In 2010 bad debt provisions have been written off for amount of 83 568 LVL (118 907 EUR), which have been declared as insolvent or wound up. Bad debt provisions have been created on grounds of assessment of financial status and operational activities of clients considering repayment of debts according to agreements signed and potential for recovery of debt. Reserves are made for debtors which for duration of 2 years do not reply to verification notes and cannot be found at given addresses, which have not made any payments within a year, as well as debtors regarding which insolvency procedure has been started.

18. Other debtors

	LVL	LVL	EUR	EUR
Surplus VAT payment	21 207	9 641	30 175	13 718
VAT paid in advance on boarder	470	470	669	669
Surplus URN payment		32	0	46
Advance payment to the UIN*	115 845	69 633	164 833	99 079
Guarantee payments made	2 620		3 728	0
Loans to employees	1 752	1 752	2 493	2 493
Other debtors		2 980	0	4 240
<i>In total other debtors</i>	<i>141 894</i>	<i>84 508</i>	<i>201 897</i>	<i>120 244</i>

19. Expenditures of the next periods

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Insurance	22 398	6 234	31 869	8 870
Licence fees	457	251	650	357
Other	14655	1772	20 852	2 521
<i>In total expenditure of the next periods</i>	37 510	8 257	53 372	11 749

20. Money and its equivalents

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Money in accounts	8 466	16 536	12 046	23 529
Money in cash	70	1 021	100	1 453
Nauda ceļā		41	0	58
<i>In total other debtors</i>	8 536	17 598	12 146	25 040

	2010		2009	
Sadalījums pa valūtām	Valūta	LVL	Valūta	Valūta
LVL	2 365	2 365	16 687	16 687
EUR	8 781	6 171	1 296	911

21. Share capital, reserves and profit per share

Changes in share capital and distribution of shares among shareholders are shown in the following way:

	%	2009 LVL	2009 EUR
<i>Shares of closed issue</i>			
LTD SEZ Laskana	26,00	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	26,99	104 489	148 674
Physical persons of the Republic of Latvia	2,99	11 577	16 473
SIA JL Lindex	15,99	61 915	88 097
<i>Shares of public offering *</i>			
	28,03	108 500	154 382
Total:	100	387 136	550 845
	2009.12.31	387136	550 845
	2010.12.31	387136	550 845

*Shares of public offering consist of 108 500 shares the holder and controller of which is the joint-stock company Latvian Central Depository, consequently these shares are available in the market.

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account which makes 374 155 Ls (in 2006- 235 733 Ls) is divided with the weighted-average number of shares in circulation in the period of account which is 387 136 (in 2009- 387 136).

A nominal value of each share is 1 Latvian lat.

In compliance with the statutes, the profit which remains after dividends are paid and included in undividable reserves is included in other reserves and used for the further development of the company.

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Profit of the period of account	-162 745	90 074	-231 565	128 164
Number of shares 31.12.2009	387 136	387 136	550 845	550 845
Basic profit per share per year	-0,42	0,23	-0,60	0,33

22. Loans from credit institutions

	% rate in force	The repayment term	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Long-term:						
A/s Swedbank	3 mon.Euribor + %	1 year or more		536 334		763 135
A/s Nordea banka	3 mon.Euribor + %	1 year or more	820 310	918 088	1 167 196	1 306 322
			820 310	1 454 422	1 167 196	2 069 456
Short-term:						
A/s Swedbanka creditline	3 mon.Euribor + %	up to 12 mon.		1 520 062	0	2 162 853
A/s Nordea banka creditline	The Base rate EONIA +	up to 12 mon.	2 112 820		3 006 273	
A/s Nordea banka	3 mon.Euribor + %	up to 12 mon.	130 370	114 074	185 500	162 313
A/s Swedbank	6 mon.Euribor + %	up to 12 mon.		3 969	0	5 647
A/s Swedbank	3 mon.Euribor + %	up to 12 mon.		96 455	0	137 243
			2 243 190	1 734 560	3 191 772	2 468 057
			3 063 500	3 188 982	4 358 968	4 537 513

In 2006 Company received loan from Nordea Bank Finland Plc for 1 855 000 EUR. Loan shall be repaid by September 4, 2016. As the collateral for the claims raised due to the loan agreement signed the Company has mortgaged real estate with cadastre No 8401 001 0005 and No.8401 501 0024.

22. Liabilities of financial lease and other loans

	Spēkā esošā % likme	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Long-term:					
SIA Hanza līzings	3 mon. Euribor+%	77 145	204 568	109 767	291 074
SIA Nordea Līzings	Fixed rate	6 906	17 683	9 826	25 161
		84 051	222 251	119 594	316 235
Short-term:					
SIA Hanza līzings	3 mon. Euribor+%	127 423	170 511	181 307	242 615
SIA Nordea Līzings	Fixed rate	10 776	10 252	15 333	14 587
		138 199	180 763	196 639	257 203
Total		222 250	403 014	316 233	573 437

Loan agreement liabilities refer to loan agreements of four motor vehicles starting from 2007, with final payment period at March 1, 2013. Accounting value of cars used in financial lease is set at 34 783 LVL. Lease agreement liabilities refer to six contracts for lease of timber and forestry equipment starting from 2006, with the maturity date at February 28, 2013. Accounting value of equipment used in the finance lease is 257 370 LVL.

23. Debts to suppliers and contractors

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Debts to suppliers and contractors	3 459 619	1 297 151	4 922 594	1 845 680
Spread by currencies:				
	LVL	3 459 619	1 297 151	4 922 594
				1 845 680

24. Taxes payable

	2009.12.31 LVL	Paid in 2010 LVL	Calculated in 2010 LVL	Fine LVL	Taxes recognized as other taxes LVL	2010.12.31 LVL
Company Income Tax(Adjustment)	22 204	85 084		(1 538)	10 095	115 845
VAT	12 621	706 270	(444 768)	(9)	(252 907)	21 207
VAT on the boarder	470					470
VAT on timber	(2)	7 280 920	(7 280 921)			(3)
Peoples Income Tax	(15 704)	124 613	(239 748)	(4 096)	71 303	(63 632)
Compulsory Payments of Social Insurance	(26 131)	174 145	(348 647)	(629)	171 509	(29 753)
Natural Resources Tax	-	152	(247)			(95)
Property Tax	(18)	14 400	(14 379)	(3)		-
Risk due	32	395	(443)			(16)

	2009.12.31 EUR	Paid in 2010 EUR	Calculated in 2010 EUR	Fine EUR	Taxes recognized as other taxes EUR	2010.12.31 EUR
Company Income Tax(Adjustment)	31 593	121 064	-	(2 188)	14 364	164 833
Value added tax	17 958	1 004 932	(632 848)	(13)	(359 854)	30 175
VAT at border	669	-	-	-	-	669
VAT on timber	(3)	10 359 816	(10 359 817)	-	-	(4)
Residents income tax	(22 345)	177 308	(341 131)	(5 828)	101 455	(90 540)
Social insurance costs	(37 181)	247 786	(496 080)	(895)	244 035	(42 335)
Nature resource tax	-	216	(351)	-	-	(135)
Real estate cost	(26)	20 489	(20 459)	(4)	-	-
Risk due	46	562	(630)	-	-	(23)

*Adjustments are explained in Note 34.

According to tax requirements of the Republic of Latvia the corporate income tax is paid in advance. Therefore after the end of reporting year when the actual tax is calculated the payable tax or overpayment of tax is established.

25. Other liabilities

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Salary payments	56 837	55 676	80 872	79 220
Contributions to private pension funds	2 138	2 138	3 042	3 042
Payments for deductions from wages	490	525	697	747
Advance payments to employees		28	0	40
	59 465	58 367	84 611	83 049

26. Accrued for holidays

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Accrued for holidays	119 527	75 561	170 072	107 514

27. Accrued liabilities

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Payables to suppliers	17 041	12 566	24 247	17 880

28. Incomes from the next periods.

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Long-term:				
Project No. 124000041	34 693	45 946	49 364	65 375
Project No..04/415034/0002/023	14 954	19 942	21 278	28 375
Project No.L-APV-10-0015	490 746		698 269	0
	540 393	65 888	768 910	93 750
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No..04/415034/0002/023	4 988	4 988	7 097	7 097
	16 241	16 241	23 109	23 109

29. Personnel costs

	2010 LVL	2009 LVL	2010 EUR	2009 EUR
Average number of employees	142	106		
Total personnel costs				
Wages	1 094 192	491 473	1 556 895	699 303
Social tax	262 354	187 027	373 296	266 115
Unemployment risk due	443	655	630	932
	1 356 989	679 155	1 930 821	966 351
including:				
wages of production workers				
wages	1 028 904	410 791	1 463 998	584 503
social tax	246 627	167 686	350 919	238 596
unemployment risk due	420	626	598	891
	1 275 951	579 103	1 815 515	823 989
administration wages				
wages	65 288	80 682	92 896	114 800
social tax	15 727	19 341	22 378	27 520
Unemployment risk due	23	29	33	41
	81 038	100 052	115 307	142 361
incl. remuneration to company management - board				
wages	15 650	16 151	22 268	22 981
Social tax	3 767	3 889	5 360	5 534
Unemployment risk due	3	3	4	4
	19 420	20 043	27 628	28 514

30. Transactions with associated persons

Subsidiary	type of transaction		Income from		Payments		Debts of		Credits to	
			subsidiaries		subsidiaries		subsidiarie		subsidiarie	
			LVL	EUR	s LVL	s EUR	s LVL	s EUR	s LVL	s EUR
OOO Saldus	debt and sales of ready production	2009	-	-	3 616	5 145	107 247	152 599	-	-
		2010	-	-	15 800	22 481			-	-
OOO DOK Nr.3	debt and sales of ready production	2009	-	-	45 076	64 137	693 961	987 418	-	-
		2010	-	-	95 226	135 494	-	-	-	-
SIA Pakuļu sporta bāze	debt and sales of ready production	2009	9 633	13 707	13 424	19 101	99 899	142 143	-	-
		2010	290	413	15 058	21 426	124 881	177 690	-	-
SIA SEZ Laskana	debt, dividends and sales of ready production	2009	-	-	-	-	-	-	-	-
		2010	-	-	-	-	-	-	-	-
SIA Saldus MRU	debt, dividends and sales of ready production	2009	25 252	35 930	-	-	21 850	31 090	26 076	37 103
		2010	66 298	94 334	-	-	1 428	2 032	126 406	179 860
		2009	34 885	49 637	62 116	88 383	922 957	1 313 249	26 076	37 103
		2010	66 588	94 746	126 084	179 401	126 309	179 722	126 406	179 860

31. Expenditures due to the environment protection

The basic economic activity of the Holding is production of timber. As a wrapping material is used polyethylene plastic. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related to financial losses and significant loss of funds arising from penalty fee payments, there has been concluded agreement with Green Belt Ltd. on collection, transportation, recycling and regeneration of used wrapping material so that it corresponds with the requirements of normative acts, planning and organization of the said work. During maintenance work various oil filters and oils are replaced. They are collected in special places and then handed over to BAO Ltd. on which there has been concluded a special agreement on collection of hazardous waste. In this way the Holding meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, int.al. unplanned taxes and decreased ecological risks in all objects.

32. Financial instruments

The main financial instruments of the Holding are granted and received short-term loans, money, short-term deposits and financial lease. The main objective of these financial instruments is to secure the financing of Holding's economic activity. Also, the holding comes in touch with some other financial instruments, for example, debts of buyers and customers and debts of other debtors, debts to suppliers and constructors and other debtors which directly arise from its economic activity.

Financial risks

The main financial risks related to the Holding's financial instruments are: credit risk, currency risk, interest risk and liquidity risk.

Credit risk

The parent company of the Holding and the Holding itself is subjected to credit risks which arise from the debts of buyers and customers, short and long-term loans.

The Holding controls its credit risks by constantly estimating the history of how debtors pay back their debts and by establishing crediting conditions for each customer separately. Besides, the company constantly monitors the reminders of debtors' debts in order to decrease the possible of arising of unrecoverable debts. The Holding does not possess a significant concentration of credit risks towards a particular partner or similar transactions with a group of partners.

Foreign currency risk

To the financial assets which are under foreign currency risk belong money and its equivalents, debts of buyers and customers, advance payments for construction work, short-term loans, debts to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The holding does not use any financial instruments to administrate currency fluctuations risks.

Interest risk

The companies which belong to the Holding are subjected to the interest risk; mainly they are loans from crediting institutions and leasing companies.

The management of the Holding think that the financial assets and liabilities of the Holding on December 31, 2009 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

Liquidity risk

The Holding is controlling its liquidity risk by securing relevant financing, by using credit lines.

Real value

All financial assets and liabilities of the Holding which are not shown in their real value- money, debtors, other debtors, received and granted loans, debts to suppliers and contractors and the balance value of other debts correspond with their real value.

33. Events after the year of account

Except from what was said in the management statement in the period from the last day of the year of account until the date of signing this financial statement there have not occurred any events due to which there should have been done any amendments or corrections in this financial statement.

34. Correction of errors/ changes in accounting policies

In 2010 the Company has discovered an error made in calculation of income tax for 2008 and 2009. Adjustment of error resulted in retrospective changes by adjusting balance sheet position of *Corporate income tax*, incl., position of *Profit brought forward*.

Impact of correction of errors made:

Balance sheet Assets/ Liabilities	31.12.2009 adjusted	Impact of retrospective adjustment on			31.12.2009 Pre-adjusted
		Year 2009	As at 2008	Net impact	
Tax liabilities for CIT decrease and increase of profit	22 204	35 084	34 549	69 633	-47 429
Atliktā nodokļa saistību smazinājums un atliktā nodokļa ieņēmumu palielinājums	104 338	39 002		39 002	143 340
Net impact	126 542	74 086	34 549	108 635	95 911
Non-allocated profit					

SIA "Zvērinātas revidentes S. Koļesņikovas birojs"

Reģ. Nr. 40002024395

Zvērinātu revidentu komercsabiedrības licence Nr.127

Torņakalna iela 28, Rīga, LV-1004. Tālr.67285801, mob. tālr. 29235573, E- pasts: sveta.ars @ ml.lv

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Saldus mežrūpniecība

Report on the Financial Statements

We have audited the accompanying financial statements on pages 6 to 29 of AS Saldus mežrūpniecība which comprise the balance sheet as of 31 December 2010 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AS Saldus mežrūpniecība as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Report on the Management Report

We have read the Management Report set out on page 4 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2010.

Certified auditors' company SIA
"Zverinatas revidentes S. Kolesnikovas birojs"
Audit company licence No. 127

Svetlana Kolesnikova
Certified auditor
Certificate No. 22

Member of the Board

Riga,
29.April 2011

