

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

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF THE YEAR 2010**

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

**Saldus, 2010**

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## Information about the Company

Name of the Company	<b>Saldus Timber Wood Industry (Saldus mežrūpniecība)</b>
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns ( <i>Jānis Bertrāns</i> ) – Chancellor of the Board Janis Merkals ( <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 Melrkals ( <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 – June 30, 2010
2. Name of the company	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> )
Legal status of the company	(100%) Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – June 30, 2010
3. Name of the company	Saldus ( <i>Салдус</i> ) (100%)
Legal status of the company	Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – June 30, 2010
Name and address of the Auditor	(Translated from Latvian) Ginta Jaunzeme ( <i>Ginta Jaunzeme</i> ) Sworn Auditor (Certificate of Latvian Sworn Auditor No.16) License of Commercial Company No.39

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## Management Report

### *Consolidated report of the commercial activity for 6 months of the 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.

As from the beginning of the year 2010 the situation in the forestry sector in economic terms has become stable, there is a balance between the supply and demand of the products and provided services in the forestry sector, the situation is predictable. On the labour market minor labour turnover is observed. Mutual payment terms between the enterprises are met. The rates offered by the banks are becoming better.

Taking into consideration all above mentioned the enterprise has concluded the first half-year of 2010 with the profit LVL 75.244 by the turnover of LVL 8.202.511, which makes a profit per share of LVL 0,19.

#### **Important subsequent events**

After the accounting period and before the approval of the report as important event shall be mentioned approval of the logging estimate for the years 2011-2015 and confiscation of the FSC certificate from the state forest during the FSC monitoring audit.

#### **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 m<sup>3</sup> yearly. It is planned to increase the production and realization volumes for sawn timber up to 150 000 m<sup>3</sup> 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.

June 30, 2010

## Profit - loss calculation

	Note	30.06.2010 LVL	30.06.2009 LVL	30.06.2010 EUR	30.06.2009 EUR
Net turnover		8 202 511	3 735 803	11 671 122	5 315 569
Production costs of sold products		(7 362 544)	(3 268 506)	(10 475 956)	(4 650 665)
<b>Gross profit</b>		<b>839 967</b>	<b>467 297</b>	<b>1 195 165</b>	<b>664 904</b>
Selling costs		(612 584)	(444 183)	(871 629)	(632 015)
General and administration costs		(70 786)	(72 811)	(100 719)	(103 601)
Other income from economic activity		184 302	135 282	262 238	192 489
Other expenses from economic activity		(186 293)	(88 994)	(265 071)	(126 627)
<b>Profit or loss from economic activity</b>		<b>154 606</b>	<b>(3 409)</b>	<b>219 985</b>	<b>(4 851)</b>
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		-	587	-	835
Other interest payments and the like costs		(77 744)	(120 029)	(110 620)	(170 786)
<b>Profit or loss before extraordinary items and taxes</b>		<b>76 862</b>	<b>(122 851)</b>	<b>109 365</b>	<b>(174 801)</b>
Extraordinary incomes					
Extraordinary costs					
<b>Profit or loss before taxes</b>		<b>76 862</b>	<b>(122 851)</b>	<b>109 365</b>	<b>(174 801)</b>
Company's income tax		-	(5 448)	-	(7 752)
Deferred company's income tax				-	-
Other taxes		(1 618)	(5 665)	(2 302)	(8 061)
<b>Profit or (loss),</b>		<b>75 244</b>	<b>-133 964</b>	<b>107 063</b>	<b>-190 614</b>
<b>Profit/ (loss) per share</b>					
<i>lats per share / EUR per share</i>		<b>0.19</b>	<b>(0.35)</b>	<b>0.28</b>	<b>(0.49)</b>

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

## Balance-sheet

	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Note	LVL	LVL	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	21 623	25 819	30 767	36 737
Intangible value of the company	-	-	-	-
Advanced payments for intangible investments	-	-	-	-
<b>TOTAL</b>	<b>21 623</b>	<b>25 819</b>	<b>30 767</b>	<b>36 737</b>
Fixed assets				
Land, buildings and constructions	2 782 669	2 883 155	3 959 381	4 102 360
Biological assets	553 296	553 296	787 269	787 269
Equipment and mashinery	917 096	1 116 631	1 304 910	1 588 823
Other fixed assets	17 591	15 227	25 030	21 666
Unfinished constructions	1 421 622	635 342	2 022 786	904 010
Advance payments for fixed assets	11 036	29 728	15 703	42 299
<b>TOTAL</b>	<b>5 703 310</b>	<b>5 233 379</b>	<b>8 115 079</b>	<b>7 446 427</b>
Long-term financial investments				
Partnership in the capital of related companies	524 308	524 308	746 023	746 023
Loans to related companies	819 732	756 300	1 166 374	1 076 118
<b>TOTAL</b>	<b>1 344 040</b>	<b>1 280 608</b>	<b>1 912 397</b>	<b>1 822 141</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>7 068 973</b>	<b>6 539 806</b>	<b>10 058 242</b>	<b>9 305 306</b>
<b>WORKING CAPITAL</b>				
Reserves				
Raw materials, direct materials, auxiliary materials	36 848	8 053	52 430	11 458
Biological assets	298 760	298 760	425 097	425 097
Unfinished production	2 223 326	1 300 105	3 163 508	1 849 883
Made production and goods for selling	411 365	202 653	585 320	288 349
Advance payments for goods	337 436	1 422 160	480 128	2 023 551
<b>TOTAL</b>	<b>3 307 735</b>	<b>3 231 731</b>	<b>4 706 483</b>	<b>4 598 339</b>
Debtors				
Debts of buyers and customers	1 284 332	651 791	1 827 440	927 415
Other debtors	42 524	42 524	60 506	60 506
Accured incomes	27 888	14 875	39 681	21 165
Expenses of the following periods	82 830	8 257	117 856	11 749
<b>TOTAL</b>	<b>1 437 574</b>	<b>717 447</b>	<b>2 045 484</b>	<b>1 020 835</b>
Money and its equivalents	3 396	17 598	4 832	25 040
<b>TOTAL WORKING CAPITAL</b>	<b>4 748 705</b>	<b>3 966 776</b>	<b>6 756 798</b>	<b>5 644 214</b>
<b>TOTAL ASSETS</b>	<b>11 817 678</b>	<b>10 506 582</b>	<b>16 815 041</b>	<b>14 949 519</b>

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

## Balance-sheet (continuation)

		30.06.2010	31.12.2009	30.06.2010	31.12.2009
	Note	LVL	LVL	EUR	EUR
<b>OWN CAPITAL</b>					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	802 492	1 141 843	1 141 843
Adjustment reserve of foreign currency		-	-	-	-
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year		(46 686)	(62 674)	(66 428)	(89 177)
Retained earnings of the year of account		75 244	15 988	107 063	22 749
<b>TOTAL</b>		<b>3 843 258</b>	<b>3 768 014</b>	<b>5 468 463</b>	<b>5 361 401</b>
<b>TOTAL OWN CAPITAL</b>		<b>3 843 258</b>	<b>3 768 014</b>	<b>5 468 463</b>	<b>5 361 401</b>
<b>CREDITORS</b>					
<b>Long-term creditors</b>					
Company's deferred income tax		143 340	143 340	203 954	203 954
Long-term loans from credit institutions		1 423 022	1 454 422	2 024 778	2 069 456
Financial lease liabilities long-term part		143 768	222 251	204 563	316 235
Other creditors		1 388 038	1 388 038	1 975 000	1 975 000
Deferred incomes long-term part		65 888	65 888	93 750	93 750
<b>TOTAL</b>		<b>3 164 056</b>	<b>3 273 939</b>	<b>4 502 046</b>	<b>4 658 396</b>
<b>Short-term creditors</b>					
Short-term loans from credit institutions		1 656 508	1 734 560	2 356 999	2 468 057
Financial lease liabilities short-term part		166 781	180 763	237 308	257 203
Advanced payments received from customers		-	135	-	192
Debts to suppliers and contractors		2 657 044	1 309 717	3 780 633	1 863 559
Debts to associated companies		-	-	-	-
Taxes payable		169 218	89 285	240 776	127 041
Other creditors		69 011	58 367	98 194	83 049
Incomes from following periods short-term part		16 241	16 241	23 109	23 109
Accrued liabilities		75 561	75 561	107 514	107 514
Unpaid dividends from previous years		-	-	-	-
<b>TOTAL</b>		<b>4 810 364</b>	<b>3 464 629</b>	<b>6 844 531</b>	<b>4 929 723</b>
<b>TOTAL CREDITORS</b>		<b>7 974 420</b>	<b>6 738 568</b>	<b>11 346 577</b>	<b>9 588 118</b>
<b>TOTAL LIABILITIES</b>		<b>11 817 678</b>	<b>10 506 582</b>	<b>16 815 041</b>	<b>14 949 519</b>

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

## Cash flow account

<b>I. Cash flow from basic activity</b>		<b>31.06.2010</b>	<b>30.06.2009</b>	<b>31.06.2010</b>	<b>30.06.2009</b>
		<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
<b>1. Profit (+) or loss (-) before extraordinary items and taxes</b>		<b>76 862</b>	<b>(122 851)</b>	<b>109 365</b>	<b>(174 801)</b>
a) wear and tear of fixed assets and intangible investments (+)		278 691	268 739	396 542	382 381
b) elimination of fixed assets and intangible investments		-	-	-	-
c) formation of accruals (except the accruals for insecure debts)		-	-	-	-
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign		1 348	-	1 918	-
e) incomes from the acknowledgement of financing		-	-	-	-
f) other interest incomes and the like incomes		-	(587)	-	(835)
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		77 744	120 029	110 620	170 786
<b>2. Profit or loss before the corrections of impact of changes of</b>		<b>434 645</b>	<b>265 330</b>	<b>618 444</b>	<b>377 531</b>
a) increase of the remainder of debtors' debts (-) or decrease (+)		(719 934)	(153 912)	(1 024 374)	(218 997)
b) increase of the remainder of reserves (-) or decrease (+)		(76 197)	(6 801)	(108 419)	(9 677)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		1 437 769	161 810	2 045 761	230 235
<b>3 Gross cash flow from basic activity</b>		<b>1 076 283</b>	<b>266 427</b>	<b>1 531 413</b>	<b>379 091</b>
4. Expenditures to interest payers		(77 744)	(120 029)	(110 620)	(170 786)
5. Expenditures for paying company's income tax and immovable property tax		(1 618)	(11 113)	(2 302)	(15 812)
<b>6. Cash flow before extraordinary items</b>		<b>996 921</b>	<b>135 285</b>	<b>1 418 491</b>	<b>192 493</b>
7. Cash flow from extraordinary items					
<b>Net cash flow from basic activity</b>		<b>996 921</b>	<b>135 285</b>	<b>1 418 491</b>	<b>192 493</b>
<b>II. Cash flow from investment activities</b>					
1. Purchase or alienation of shares or parts of related or associated companies		-	-	-	-
2. Granted loans		-	-	-	-
3. Purchase of fixed assets and intangible assets		(64 780)	(164 100)	(92 174)	(233 493)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		(32 714)	(10 538)	(46 548)	(14 994)
5. Incomes from selling fixed assets and intangible investments		(711 712)	-	(1 012 675)	-
6. Received interest		-	587	-	835
<b>6. Net cash flow from investing activities</b>		<b>(809 206)</b>	<b>(174 051)</b>	<b>(1 151 396)</b>	<b>(247 652)</b>
<b>III. Cash flow from financing activities</b>					
1. Received loans		-	-	-	-
2. Received financing from the EU		-	-	-	-
3. Received investment in capital		-	-	-	-
4. Expenditures to pay back loans		(201 917)	(438 168)	(287 302)	(623 457)
5. Expenditures for redemption of a hired fixed asset		-	-	-	-
6. Disbursed dividends		-	-	-	-
<b>6. Net cash flow from financing activity</b>		<b>(201 917)</b>	<b>(438 168)</b>	<b>(287 302)</b>	<b>(623 457)</b>
<b>IV. Result of fluctuations of the exchange rate of foreign currency</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>		<b>(14 202)</b>	<b>(476 934)</b>	<b>(20 208)</b>	<b>(678 616)</b>
VI. Remainder of money or its equivalents at the beginning of the year of		17 598	478 208	25 040	680 429
VII. Remainder of money or its equivalents at the end of the year of		3 396	1 274	4 832	1 813

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



## 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
<b>31.12.2008.</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>800 242</b>	<b>(62 674)</b>	<b>-</b>	<b>-</b>	<b>3 749 776</b>
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2008	-	-	-	-	-	-	-	-
Disbursed dividends	-	-	-	-	-	-	-	-
Reserves from reestimates on fixed assets	-	-	-	2 250	-	-	-	2 250
Profit of the year of account, corrected	-	-	-	-	-	15 988	-	15 988
<b>31.12.2009.</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(62 674)</b>	<b>15 988</b>	<b>-</b>	<b>3 768 014</b>
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Reserves of recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2009	-	-	-	-	15 988	(15 988)	-	-
Reserves from reestimates on fixed assets	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	75 244	-	75 244
<b>30.06.2010</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(46 686)</b>	<b>75 244</b>	<b>-</b>	<b>3 843 258</b>

	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
<b>31.12.2008.</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 138 642</b>	<b>(89 177)</b>	<b>-</b>	<b>-</b>	<b>5 335 451</b>
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2008	-	-	-	-	-	-	-	-
Disbursed dividends	-	-	-	-	-	-	-	-
Reserves from revaluation of long-term	-	-	-	3 201	-	-	-	3 201
Profit of the year of account, corrected	-	-	-	-	-	22 749	-	22 749
<b>31.12.2009.</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(89 177)</b>	<b>22 749</b>	<b>-</b>	<b>5 361 401</b>
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Reserves of recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2009	-	-	-	-	22 749	(22 749)	-	-
Reserves from reestimates on fixed assets	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	107 063	-	107 063
<b>30.06.2010</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(66 428)</b>	<b>107 063</b>	<b>-</b>	<b>5 468 463</b>

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
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## Annex to the financial statement

### 1. 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.

	30.06.2010.	31.12.2009
RUB/ LVL	0.0184	0.0164
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	- 5 years

systems, software

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.

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

	logging		wood processing		Other undividable		Total	
	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	4 178 025	2 111 677	3 629 176	1 498 807	395 310	125 319	8 202 511	3 735 803
Production costs of sold production	(3 529 594)	(1 906 073)	(3 589 583)	(1 303 016)	(243 367)	(59 417)	(7 362 544)	(3 268 506)
Selling costs	(357 739)	(391 961)	(2 915)	(20 475)	(251 930)	(31 747)	(612 584)	(444 183)
General and administration costs	(2 243)	(1 079)	(1 793)	(403)	(66 750)	(71 329)	(70 786)	(72 811)
Other incomes/ (expenditures)	42 727	(73)	51 644	2 529	(96 362)	43 832	(1 991)	46 288
from economic activity								
<b>Segment's profit</b>	<b>331 176</b>	<b>(187 509)</b>	<b>86 529</b>	<b>177 442</b>	<b>(263 099)</b>	<b>6 658</b>	<b>154 606</b>	<b>(3 409)</b>
Incomes from participation in the company's capital							-	-
Financial costs, net	(27 088)	(40 362)	(5 253)	(2 128)	(45 403)	(76 952)	(77 744)	(119 442)
Company's income tax (undivided)	-	-	-	-	-	-	-	-
Other taxes	-	(305)	-	(1 548)	(1 618)	(9 260)	(1 618)	(11 113)
<b>Net result</b>	<b>304 088</b>	<b>(228 176)</b>	<b>81 276</b>	<b>173 766</b>	<b>(310 120)</b>	<b>(79 554)</b>	<b>75 244</b>	<b>(133 964)</b>
Segment's assets	5 826 863	4 856 861	3 661 490	2 331 293	2 329 325	3 318 428	11 817 678	10 506 582
Segment's liabilities	5 244 177	3 399 803	3 496 118	3 399 803	3 077 383	3 706 976	11 817 678	10 506 582

  

	logging		wood processing		Other		Total	
	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	5 944 794	3 004 646	5 163 852	2 132 610	562 475	178 313	11 671 122	5 315 569
Production costs of sold production	(5 022 160)	(2 712 098)	(5 107 516)	(1 854 025)	(346 280)	(84 543)	(10 475 956)	(4 650 665)
Selling costs	(509 017)	(557 710)	(4 148)	(29 133)	(358 464)	(45 172)	(871 629)	(632 015)
General and administration costs	(3 192)	(1 535)	(2 551)	(573)	(94 977)	(101 492)	(100 719)	(103 601)
Other incomes/ (expenditures) from economic activity	60 795	(104)	73 483	3 598	(137 111)	62 367	(2 833)	65 862
<b>Segment's profit</b>	<b>471 221</b>	<b>(266 801)</b>	<b>123 120</b>	<b>252 477</b>	<b>(374 356)</b>	<b>9 473</b>	<b>219 985</b>	<b>(4 851)</b>
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(38 543)	(57 430)	(7 474)	(3 028)	(64 603)	(109 493)	(110 620)	(169 951)
Company's income tax (undivided)	-	-	-	-	-	-	-	-
Other taxes	-	(434)	-	(2 203)	(2 302)	(13 176)	(2 302)	(15 812)
<b>Net result</b>	<b>432 678</b>	<b>(324 665)</b>	<b>115 645</b>	<b>247 247</b>	<b>(441 261)</b>	<b>(113 195)</b>	<b>107 063</b>	<b>(190 614)</b>
Segment's assets	8 290 879	6 910 691	5 209 831	3 317 131	3 314 331	4 721 698	16 815 041	14 949 519
Segment's liabilities	7 461 792	4 837 484	4 974 528	4 837 484	4 378 722	5 274 552	16 815 041	14 949 519

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

The holding company has disclosed information through business segments.

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

Description of segments:

##### *Logging*

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

##### *Wood processing*

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

##### *Other*

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

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

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

	30.06.2010 LVL	30.06.2009 LVL	30.06.2010 EUR	30.06.2009 EUR
Incomes from sales including	7 817 380	3 652 948	11 123 130	5 197 677
Latvia	7 817 380	3 652 082	11 123 130	5 196 445
European Union countries		866	0	1 232
Other countries	-		-	0
Incomes from rendering of services, including	385 131	82 855	547 992	117 892
Latvia	385 131	82 855	547 992	117 892
European Union countries			0	0
	<b>8 202 511</b>	<b>3 735 803</b>	<b>11 671 122</b>	<b>5 315 569</b>

#### 6. Financial instruments

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

##### **Financial risks**

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

##### **Credit risk**

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

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



#### ***Foreign currency risk***

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

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

#### ***Interest rate risk***

The holding company is subjected to the interest rate risk, which mainly are borrowings from credit institutions and financial leasing companies. Holding company's management think that on 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.

