

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

**(SINGLE REGISTRATION NUMBER 40003020121)**

**ANNUAL REPORT FOR THE PERIOD OF 9 MONTHS OF THE YEAR 2010**

**DRAWN-UP 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 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 – September 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%
January 1 – March 31, 2010	January 1 – September 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 – September 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

## **Management Report**

### ***Consolidated report of the commercial activity for 9 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 9 months of 2010 with the profit LVL 47 746 by the turnover of LVL 14 046 909, which makes a profit per share of LVL 0,12.

#### **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.

September 30, 2010

## Consolidated profit or loss calculation

	Note	30.09.2010 LVL	30.09.2009 LVL	30.09.2010 EUR	30.09.2009 EUR
Net turnover		14 046 909	6 417 136	19 986 951	9 130 762
Production costs of the sold production		(12 705 683)	(5 559 515)	(18 078 558)	(7 910 477)
<b>Gross profit</b>		<b>1 341 226</b>	<b>857 621</b>	<b>1 908 393</b>	<b>1 220 285</b>
Selling costs		(1 020 514)	(683 649)	(1 452 061)	(972 745)
General administration costs		(139 622)	(113 767)	(198 664)	(161 876)
Other income from company's economic activity		387 943	399 191	551 993	567 998
Other expenditures from company's economic activity		(388 404)	(255 117)	(552 649)	(362 999)
<b>Profit or loss from economic activity</b>		<b>180 629</b>	<b>204 279</b>	<b>257 012</b>	<b>290 663</b>
Net profit from participation in the capital of subsidiary and associated companies					-
Other interest income and the like income		121 433	67 015	172 784	95 354
Other interest payments and the like payments		(238 393)	(190 858)	(339 203)	(271 566)
<b>Profit or loss before extraordinary items and taxes</b>		<b>63 669</b>	<b>80 436</b>	<b>90 593</b>	<b>114 450</b>
Extraordinary income					
Extraordinary expenditures					
<b>Profit or loss before taxes</b>		<b>63 669</b>	<b>80 436</b>	<b>90 593</b>	<b>114 450</b>
Company's income tax		-	(5 448)	-	(7 752)
Company's deferred income tax		-	-	-	-
Other taxes		(15 923)	(21 521)	(22 656)	(30 622)
<b>Profit or (loss)</b>		<b>47 746</b>	<b>53 467</b>	<b>67 936</b>	<b>76 077</b>
<b>Profit/ (loss) per share</b>					
LVL per share / EUR per share		<b>0.12</b>	<b>0.14</b>	<b>0.18</b>	<b>0.20</b>

Board :

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

**Consolidated balance sheet**

	Note	30.09.2010 LVL	31.12.2009 LVL	30.09.2010 EUR	31.12.2009 EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like		36 895	46 159	52 497	65 678
Company's intangible value		132 000	132 000	187 819	187 819
Advance payments for intangible investments		-	-	-	-
<b>TOTAL</b>	<b>13</b>	<b>168 895</b>	<b>178 159</b>	<b>240 316</b>	<b>253 497</b>
<b>Fixed assets</b>					
Land, premises and buildings		2 834 121	2 936 595	4 032 591	4 178 398
Biological assets		553 296	553 296	787 269	787 269
Equipment and machinery		982 404	1 320 805	1 397 835	1 879 336
Other fixed assets		20 472	17 232	29 129	24 519
Unfinished constructions		1 171 573	1 158 674	1 666 998	1 648 645
Advance payments for fixed assets		1 422 297	29 728	2 023 746	42 299
<b>TOTAL</b>	<b>14</b>	<b>6 984 163</b>	<b>6 016 330</b>	<b>9 937 569</b>	<b>8 560 466</b>
<b>Long-term financial investments</b>					
Participation in the capital of related companies		-	-	-	-
Loans to the related companies		-	-	-	-
<b>TOTAL</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>7 153 058</b>	<b>6 194 489</b>	<b>10 177 885</b>	<b>8 813 964</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		238 527	251 463	339 393	357 800
Biological assets		298 760	298 760	425 097	425 097
Unfinished production		2 214 165	1 300 105	3 150 473	1 849 883
Finished production and goods for sale		663 410	284 930	943 947	405 419
Advance payments for goods		296 920	1 383 048	422 479	1 967 900
<b>TOATL</b>	<b>15</b>	<b>3 711 782</b>	<b>3 518 306</b>	<b>5 281 390</b>	<b>5 006 098</b>
<b>Debtors</b>					
Debts of buyers and customers	16	2 477 535	670 443	3 525 215	953 954
Accrued income		267 677	122 702	380 870	174 589
Other debtors	17	1 182	1 141	1 682	1 623
Expenditures of the next periods	18	328 856	239 881	467 920	341 320
<b>TOTAL</b>		<b>3 075 250</b>	<b>1 034 167</b>	<b>4 375 687</b>	<b>1 471 487</b>
<b>Money and its equivalents</b>	<b>19</b>	<b>12 188</b>	<b>20 181</b>	<b>17 342</b>	<b>28 715</b>
<b>TOTAL CURRENT ASSETS</b>		<b>6 799 220</b>	<b>4 572 654</b>	<b>9 674 418</b>	<b>6 506 300</b>
<b>TOTAL ASSETS</b>		<b>13 952 278</b>	<b>10 767 143</b>	<b>19 852 303</b>	<b>15 320 264</b>

Board:

Jānis Bertrāns  
Chairman of boardJanis Mierkalns  
Vice-chairmanGundars Maurs  
Member of boardGatis Zommers  
Member of board

## Consolidate balance sheet (continuation)

Shareholders'equity and liabilities	Note	30.09.2010 LVL	31.12.2009 LVL	30.09.2010 EUR	31.12.2009 EUR
<b>Shareholders'equity</b>					
Share capital	20	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
Adjustment reserve of foreign currency		(90 268)	(116 904)	(128 440)	(166 339)
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		(239 203)	(285 981)	(340 355)	(406 914)
Retained earnings from the year of accunt		47 746	49 813	67 936	70 878
<b>TOTAL</b>		<b>3 532 975</b>	<b>3 461 628</b>	<b>5 026 971</b>	<b>4 925 453</b>
<b>Total shareholders'equity</b>		<b>3 532 975</b>	<b>3 461 628</b>	<b>5 026 971</b>	<b>4 925 453</b>
<b>Liabilities</b>					
<b>Long-term liabilities</b>					
Deferred company's income tax		143 340	143 340	203 954	203 954
Long-term loans from credit institutions	21	1 724 694	1 840 686	2 454 018	2 619 060
Long-term part of financial lease liabilities	22	134 082	244 161	190 781	347 410
Other creditors		1 282 617	1 388 038	1 825 000	1 975 000
Long-term part of incomes from next periods	26	65 888	65 888	93 750	93 750
<b>TOTAL</b>		<b>3 350 621</b>	<b>3 682 113</b>	<b>4 767 504</b>	<b>5 239 175</b>
<b>Short-term liabilities</b>					
Short-term loans from credit institutions	21	1 610 493	1 752 536	2 291 525	2 493 634
Short-term part of financial lease	22	163 469	189 670	232 595	269 876
Advance payments received from buyers		74 932	74 805	106 619	106 438
Debts to suppliers and contractors		4 962 824	1 355 362	7 061 462	1 928 506
Accured liabilities	25	75 561	75 561	107 514	107 514
Taxes payable	23	83 740	93 675	119 151	133 288
Other creditors	24	81 422	65 552	115 853	93 272
Incomes from the next periods short-term part	26	16241	16241	23 109	23 109
Unpaid dividends from the previous years		-	-	-	-
<b>TOTAL</b>		<b>7 068 682</b>	<b>3 623 402</b>	<b>10 057 828</b>	<b>5 155 637</b>
<b>Total liabilities</b>		<b>10 419 303</b>	<b>7 305 515</b>	<b>14 825 333</b>	<b>10 394 811</b>
<b>Total shareholders'equity and liabilities</b>		<b>13 952 278</b>	<b>10 767 143</b>	<b>19 852 303</b>	<b>15 320 264</b>

Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

**Consolidated cash flow statement**

<b>I. Cash flow from basic activity</b>	<b>30.09.2010</b>	<b>30.06.2009</b>	<b>30.09.2010</b>	<b>30.06.2009</b>
	LVL	LVL	EUR	EUR
<b>1. Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>63 669</b>	<b>72 204</b>	<b>90 593</b>	<b>102 737</b>
a) wear and tear of fixed assets and intangible investments (+)	470 362	643 790	669 265	916 031
b) elimination of fixed assets and intangible investments	24 202	49 787	34 436	70 841
c) formation of accruals (except for the accruals for insecure debts)	-	27 484	-	39 106
d) profit (-) or loss (+) from fluctuations of exchange rate	-	11 140	-	15 851
e) income from the acknowledgement of financing	-	(16 241)	-	(23 109)
f) other interest income and the like income	(121 432)	(154 839)	(172 782)	(220 316)
h) interest payments and the like expenditures	238 393	217 412	339 203	309 349
<b>2. Profit or loss before the corrections of the impact of balance</b>	<b>675 194</b>	<b>850 737</b>	<b>960 715</b>	<b>1 210 490</b>
a) debitoru parādu atlikumu pieaugums (-) vai samazinājums (+)	(1 934 349)	63 155	(2 752 331)	89 861
b) increase (+) or decrease (-) of the reserves of accruals	(197 843)	(427 032)	(281 505)	(607 612)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	3 518 427	922 945	5 006 271	1 313 232
<b>3. Gross cash flow from basic activity</b>	<b>2 061 429</b>	<b>1 409 805</b>	<b>2 933 149</b>	<b>2 005 972</b>
4. Expenditures to pay interest payments	(238 393)	(242 973)	(339 203)	(345 719)
5. Expenditures to pay company's income tax and immovable property tax	(15 923)	(22 546)	(22 656)	(32 080)
<b>6. Cash flow before extraordinary items</b>	<b>1 807 113</b>	<b>1 144 286</b>	<b>2 571 290</b>	<b>1 628 172</b>
7. Cash flow from extraordinary items				
<b>8. Net cash flow from basic activity</b>	<b>1 807 113</b>	<b>1 144 286</b>	<b>2 571 290</b>	<b>1 628 172</b>
<b>II. Cash flow from investments</b>				
3. Acquisition of fixed assets and intangible investments	(151 259)	(133 006)	(215 222)	(189 250)
4. Expenditures for advance payments for fixed assets and unfinished constructions	(1 326 335)	(580 116)	(1 887 205)	(825 431)
5. Income from selling fixed assets and intangible investments	-	2 085	-	2 967
6. Interest received	121 433	-	172 784	-
<b>6. Net cash flow from investments</b>	<b>(1 356 161)</b>	<b>(711 037)</b>	<b>(1 929 643)</b>	<b>(1 011 715)</b>
<b>III. Cash flow from financing activities</b>				
1. Loans received	-	-	-	-
2. EU financing received			-	-
3. Received investments in capital			-	-
4. Expenditures for paying back loans	(447 640)	(884 748)	(636 934)	(1 258 883)
5. Expenditures for redemption of asset that was hired	-	-	-	-
6. Paid out dividends	-	-	-	-
<b>6. Net cash flow from financing activities</b>	<b>(447 640)</b>	<b>(884 748)</b>	<b>(636 934)</b>	<b>(1 258 883)</b>
<b>IV. The result of the exchange rate fluctuations</b>	<b>(11 305)</b>	<b>(140)</b>	<b>(16 086)</b>	<b>(199)</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>(7 993)</b>	<b>(451 639)</b>	<b>(11 373)</b>	<b>(642 624)</b>
VI. Money and its equivalents balance at the beginning of the year of	20 181	480 774	28 715	684 080
VII. Money and its equivalents balance at the end of the year of account	12 188	29 135	17 342	41 455

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board



## Statement on the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from reestimation on fixed assets	Retained earnings/loss from the previous year	Retained earnings/loss of the year of account	Currency fluctuations due to the reestimation of foreign currency	Total own capital
	LVL	LVL	LVL		LVL	LVL	LVL	LVL
<b>December 31, 2008</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>800 242</b>	<b>(66 905)</b>	<b>(219 076)</b>	<b>(120 056)</b>	<b>3 406 413</b>
Currency fluctuations due to recalculation							3 152	3 152
Distribution of profit of the year 2008					(219 076)	219 076		-
Disbursed dividends								-
Reserves from reestimation on fixed assets				2 250				2 250
Profit of the year of account, corrected						49 813		49 813
<b>December 31, 2009</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(285 981)</b>	<b>49 813</b>	<b>(116 904)</b>	<b>3 461 628</b>
Currency fluctuations due to recalculation					(3 040)		26 636	23 596
Reserves from reestimation on fixed assets	-	-	-	-	-	-	-	-
Distribution of the year 2009 profit	-	-	-	-	49 818	(49 813)	-	5
Disbursed dividends	-	-	-	-	-	-	-	-
Profit of the year of account, corrected	-	-	-	-	-	47 746	-	47 746
<b>September 30, 2009</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(239 203)</b>	<b>47 746</b>	<b>(90 268)</b>	<b>3 532 975</b>

	Share capital	Share premium	Other reserves	Reserves from reestimation on fixed assets	Retained earnings/loss from the previous year	Retained earnings/loss of the year of account	Currency fluctuations due to the reestimation of foreign currency	Total own capital
	EUR	EUR	EUR		EUR	EUR	EUR	EUR
<b>December 31, 2008</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 138 642</b>	<b>(95 197)</b>	<b>(311 717)</b>	<b>(170 824)</b>	<b>4 846 889</b>
Currency fluctuations due to recalculation	-	-	-	-	-	-	4 485	4 485
Distribution of profit of the year 2007	-	-	-	-	(311 717)	311 717	-	-
Disbursed dividends	-	-	-	-	-	-	-	-
Reserves from reestimation on fixed assets	-	-	-	3 201	-	-	-	3 201
Profit of the year of account, corrected	-	-	-	-	-	70 878	-	70 878
<b>December 31, 2009</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(406 914)</b>	<b>70 878</b>	<b>(166 339)</b>	<b>4 925 453</b>
Currency fluctuations due to recalculation	-	-	-	-	(4 326)	-	37 900	33 574
Distribution of profit of the year 2007	-	-	-	-	-	-	-	-
Disbursed dividends	-	-	-	-	70 885	(70 878)	-	7
Reserves from reestimation on fixed assets	-	-	-	-	-	-	-	-
Profit of the year of account, corrected	-	-	-	-	-	67 936	-	67 936
<b>September 30, 2009</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(340 355)</b>	<b>67 936</b>	<b>(128 440)</b>	<b>5 026 971</b>

Board:

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

## Annex to the financial statement

### 1. Corporate information

Distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC “Saldus mežrūpniecība” established new subsidiary companies in the Russian Federation, which main economic activity will be logging and production of sawn timber. In 2005, JSC “Saldus mežrūpniecība” purchased 100% shares of “Pakuļi Sports Centre” Ltd., which main activity is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2010 consolidated report, hereinafter Holding company.

### 2. Important accounting principles

In preparation of the holding company's financial statement, there were used the following accounting principles:

#### *Principles of preparing the financial statement*

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statement was prepared in compliance with the Principle of Historical Cost.

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

In financial statements as a monetary unit is used Latvian lat (Ls)- the monetary unit of the Republic of Latvia.

#### *Consolidation*

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., ooo Saldus Les and ooo Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūpniecība and its subsidiary companies were one company. In preparation of the Holding's financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net assets obtained by the Holding is accounted as an intangible value.

#### *Consolidation of foreign subsidiary companies*

By including in the financial statements the financial showings of foreign subsidiary companies, the Holding's parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Holding.

#### *Changes in the accounting principles*

In 2006, the Holding accepted the IFRS which were amended in 2004 and the application of which is mandatory for the financial years starting from January 1, 2005 or later. To apply these standards there were not made any significant changes in the Holding's financial principles. Consolidation was carried out in 2006 for the first time as in 2005 the results of subsidiary companies did not significantly impact the parent company's showings.

#### *Application of the International Financial Reporting Standards*

- SGS Nr.1 Drawing up of financial statements
- SGS Nr.2 Reserves
- SGS Nr.7 Cash flow statements
- SGS Nr.8 Accounting policies, changes in calculations and errors
- SGS Nr.10 Events after the balance sheet date
- SGS Nr.14 Showing information through segments
- SGS Nr.16 Capital assets
- SGS Nr.18 Incomes
- SGS Nr.19 Employee allowances
- SGS Nr.21 Impact of foreign currency fluctuations
- SGS Nr.23 Costs of loans

- SGS Nr.24 Disclosure of information about associated parties
- SGS Nr.27 Consolidated and separate financial statements
- SGS Nr.32 Financial instruments: disclosure and showing
- SGS Nr.33 Profit per share
- SGS Nr.36 Decrease of the value of assets
- SGS Nr.37 Reserves, possible liabilities and possible assets
- SGS Nr.38 Intangible assets
- SGS Nr.39 Financial instruments: acknowledgement and estimation

**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.

**Transactions in foreign currencies**

The Holding's accountancy is kept in Latvian lats (Ls) except for the 000 Saldus and 000 DOK Nr. 3 where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the 000 Saldus and 000 Saldus Ls into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	30.09.2009.	31.12.2009.
RUB/ LVL	0.0170	0.0164
EUR/ LVL	0,702804	0.702804

**Intangible investments**

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

The intangible investments include the licences of software used in the Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are includes as expenditures in the profit/loss statement.

**Capital assets**

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated. Wear and tear is calculated for the time of their effective use, by applying a linear method:

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 capital assets	- 5 years
Computing and data gathering devices, software	- 5 years

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.

The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value can not be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount.

Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Wear and tear for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

### **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 off to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity.

### **Loan costs**

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle No 23.

### **Lease**

Financial lease transactions when the Holding is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

Lease of capital assets when practically all risks arising from proprietorship and compensation receives lessor is classified as operative lease. Lease payments then are accounted as expenditures during the whole period of lease and are attributed to the profit or loss calculation in the whole period of lease by using a linear method.

### **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.

### **Share capital**

Common shares are classified as own capital. All shares are registered shares and in non-material form.

### **Profit per share**

Profit per share is calculated in the following way: profit of the year of account after taxes is divided with weighted-average number of shares in circulation in the period of account.

### **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.

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

### **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.

### **Accruals and deferred liabilities**

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

### **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:*

Incomes from service rendering mainly include transport services related to timber processing.

Incomes from services are recognized and they correspond with the volume of service. Incomes from services are recognized in the period when they were rendered.

If it is not possible to reasonably estimate the outcome of deal, income is recognized only in the amount in which recognized expenditures could be recovered.

#### ***Sale of goods***

Incomes are recognized when the Holding has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Holding has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors' debts.

#### ***Interest***

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

#### ***Dividends***

Incomes are recognized when shareholders have rights to receive them.

*Income from lease*

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

**Taxes**

*Company income tax*

The income tax of parent and subsidiary companies of the Holding is calculated by applying the 15% company income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

*Deferred company income tax*

Deferred company income tax, which has arisen from short-term differences by including particular posts in tax declaration and in this financial statement, is calculated by applying the Liability Tax Allocation Method. The assets and liabilities of the deferred company income tax are established on the basis of tax rates which are to be applied when disappear short-term differences. Main short-term differences arise from different wear and tear rates applied by accounting and taxation needs as well as from particular accruals and tax losses which have been transferred on to the following five years. The assets of deferred company income tax in the financial statement are shown only in the case if their recoverability could be plausibly foreseen.

**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.

**Allowances**

Parent and subsidiary companies of the Holding pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments. Parent company does not have to follow additional legal or other liabilities or to make additional payments if the state funded pension schemes or private pension plans can not meet their liabilities towards employees. Social insurance and pension plan payments as well as health insurance payments are included in the expenditures in the same period when the according payment was made. Pension plan payments and cash flow are similar, and the employer does not account assets or liabilities by accruals method.

**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.

**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	
	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009	30.09.2010	30.09.2009
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6 796 315	3 573 083	7 187 352	2 772 806	63 242	71 247	14 046 909	6 417 136
Production costs of sold products	(5 396 550)	(2 916 592)	(7 104 718)	(2 542 147)	(204 415)	(100 776)	(12 705 683)	(5 559 515)
Selling costs	(977 669)	(640 815)	(27 766)	(38 014)	(15 079)	(4 820)	(1 020 514)	(683 649)
General administration costs	(6 018)	(29 672)	(27 338)	(1 924)	(106 266)	(82 171)	(139 622)	(113 767)
Other incomes/expenditures from economic activity	74 848	51 087	80 198	105 193	(155 507)	(10 651)	(461)	145 629
<b>Segment profit</b>	<b>490 926</b>	<b>37 091</b>	<b>107 728</b>	<b>295 914</b>	<b>(418 025)</b>	<b>(127 171)</b>	<b>180 629</b>	<b>205 834</b>
Financial expenditures, net	(58 939)	(45 970)	11 086	44 555	(69 107)	(123 983)	(116 960)	(125 398)
Company income tax (undistributable)							-	-
Other taxes	(72)	(139)	(13 324)	(14 683)	(2 527)	(12 147)	(15 923)	(26 969)
<b>Net result</b>	<b>431 915</b>	<b>(9 018)</b>	<b>105 490</b>	<b>325 786</b>	<b>(489 659)</b>	<b>(263 301)</b>	<b>47 746</b>	<b>53 467</b>
Segment assets	5 547 511	5 572 867	6 357 750	2 626 704	2 047 017	2 567 572	13 952 278	10 767 143
Segment liabilities	6 138 589	4 561 324	5 994 135	2 148 346	1 819 554	4 057 473	13 952 278	10 767 143

  

	logging		timber processing		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 670 285	5 084 039	10 226 681	3 945 347	89 985	101 375	19 986 951	9 130 762
Production costs of sold products	(7 678 599)	(4 149 937)	(10 109 103)	(3 617 149)	(290 856)	(143 391)	(18 078 558)	(7 910 477)
Selling costs	(1 391 098)	(911 798)	(39 507)	(54 089)	(21 455)	(6 858)	(1 452 061)	(972 745)
General administration costs	(8 563)	(42 219)	(38 898)	(2 738)	(151 203)	(116 919)	(198 664)	(161 876)
Other incomes/expenditures from economic activity	106 499	72 690	114 111	149 676	(221 267)	(15 155)	(656)	207 211
<b>Segment profit</b>	<b>698 525</b>	<b>52 776</b>	<b>153 283</b>	<b>421 048</b>	<b>(594 796)</b>	<b>(180 948)</b>	<b>257 012</b>	<b>292 875</b>
Financial expenditures, net	(83 863)	(65 409)	15 774	63 396	(98 330)	(176 412)	(166 419)	(178 425)
Company income tax	-	-	-	-	-	-	-	-
Other taxes	(102)	(198)	(18 958)	(20 892)	(3 596)	(17 284)	(22 656)	(38 373)
<b>Net result</b>	<b>614 560</b>	<b>(12 831)</b>	<b>150 099</b>	<b>463 552</b>	<b>(696 722)</b>	<b>(374 644)</b>	<b>67 936</b>	<b>76 077</b>
Segment assets	7 893 397	7 929 475	9 046 263	3 737 463	2 912 643	3 653 326	19 852 303	15 320 264
Segment liabilities	8 734 425	6 490 179	8 528 886	3 056 821	2 588 992	5 773 264	19 852 303	15 320 264

**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.

	30.09.2010 LVL	30.09.2009 LVL	30.09.2010 EUR	30.09.2009 EUR
Income from sales, int. Al.	13 409 846	6 217 395	19 080 492	8 846 556
Latvia	13 401 673	6 130 076	19 068 863	8 722 312
Russia	8 173	87 319	11 629	124 244
the EU countries				
Income from rendering of services, int. Al.	637 063	199 741	906 459	262 315
Latvia	632 756	184 356	900 331	262 315
Russia	4 307		6 128	0
	<b>14 046 909</b>	<b>6 417 136</b>	<b>19 986 951</b>	<b>9 108 871</b>

**4. 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 March 31, 2010 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 and loans granted by the bank and its parent company, by planning terms of paying back loans, by establishing and analyzing cash flows of the next periods arising from existing and planned loans and interest fees due. The system on how to prepare the Holding's budget is very useful and helpful in the process of management and control of liquidity risks.

***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.