

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2010

PREPARED IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2011

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, 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 Melkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Maris Elleris (<i>Māris Elleris</i>) – member of the Council Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council Ainis Dabols (<i>Ainis Dābols</i>) – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2010
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2010
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2010
Name and address of the Auditor	(Translated from Latvian) Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.

Management Report

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 2010, 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 59 864 by the turnover of LVL 19 646 493, which makes a profit per share of LVL 0,15

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 2011

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 2011, it is planned to increase the production and realization volumes in logging by 40 %, i.e. up to 350 000 m³ yearly. It is planned to increase the production and realization volumes for sawn timber up to 200 000 m³ yearly. It is envisaged that profit indicators will remain in the level of 2010.

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.

February 28, 2011

Profit - loss calculation

	Note	31.12.2010 LVL	31.12.2009 LVL	31.12.2010 EUR	31.12.2009 EUR
Net turnover		19 646 493	9 173 210	27 954 441	13 052 302
Production costs of sold products		(17 964 531)	(8 059 780)	(25 561 225)	(11 468 034)
Gross profit		1 681 962	1 113 430	2 393 216	1 584 268
Selling costs		(1 349 085)	(835 997)	(1 919 575)	(1 189 517)
General and administration costs		(156 820)	(158 529)	(223 135)	(225 566)
Other income from economic activity		413 241	274 378	587 989	390 405
Other expenses from economic activity		(383 899)	(166 515)	(546 239)	(236 929)
Profit or loss from economic activity		205 399	226 767	292 256	322 660
Net profit from participation in the capital of subsidiary and associated companies					
Other interest income and the like income		-	-	-	-
Other interest payments and the like costs		(155 840)	(206 753)	(221 740)	(294 183)
Profit or loss before extraordinary items and taxes		49 559	20 014	70 516	28 477
Extraordinary incomes					
Extraordinary costs					
Profit or loss before taxes		49 559	20 014	70 516	28 477
Company's income tax		-	(35 084)	-	(49 920)
Deferred company's income tax		23 523	43 203	33 470	61 472
Other taxes		(13 218)	(12 145)	(18 808)	(17 281)
Profit or (loss),		59 864	15 988	85 179	22 749
Profit/ (loss) per share					
<i>lats per share / EUR per share</i>		0.15	0.04	0.22	0.06

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

	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trade marks and the like costs	17 837	25 819	25 380	36 737
Intangible value of the company	-	-	-	-
Advanced payments for intangible investments	-	-	-	-
TOTAL	17 837	25 819	25 380	36 737
Fixed assets				
Land, buildings and constructions	2 781 578	2 883 155	3 957 829	4 102 360
Biological assets	553 296	553 296	787 269	787 269
Equipment and mashinery	1 140 975	1 116 631	1 623 461	1 588 823
Other fixed assets	18 205	15 227	25 903	21 666
Unfinished constructions	858 082	635 342	1 220 941	904 010
Advance payments for fixed assets	1 405 810	29 728	2 000 287	42 299
TOTAL	6 757 946	5 233 379	9 615 691	7 446 427
Long-term financial investments				
Partnership in the capital of related companies	524 308	524 308	746 023	746 023
Loans to related companies	846 499	756 300	1 204 460	1 076 118
TOTAL	1 370 807	1 280 608	1 950 483	1 822 141
TOTAL LONG-TERM INVESTMENTS	8 146 590	6 539 806	11 591 553	9 305 306
WORKING CAPITAL				
Reserves				
Raw materials, direct materials, auxiliary materials	39 486	8 053	56 184	11 458
Biological assets	298 760	298 760	425 097	425 097
Unfinished production	2 822 260	1 300 105	4 015 714	1 849 883
Made production and goods for selling	398 518	202 653	567 040	288 349
Advance payments for goods	160 055	1 422 160	227 738	2 023 551
TOTAL	3 719 079	3 231 731	5 291 773	4 598 339
Debtors				
Debts of buyers and customers	453 783	651 791	645 675	927 415
Other debtors	42 524	42 524	60 506	60 506
Accured incomes	92 082	14 875	131 021	21 165
Expenses of the following periods	26 628	8 257	37 888	11 749
TOTAL	615 017	717 447	875 090	1 020 835
Money and its equivalents	8 536	17 598	12 146	25 040
TOTAL WORKING CAPITAL	4 342 632	3 966 776	6 179 009	5 644 214
TOTAL ASSETS	12 489 222	10 506 582	17 770 562	14 949 519

Board:

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Member of the boardGundars Maurs
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Balance-sheet (continuation)

		31.12.2010	31.12.2009	31.12.2010	31.12.2009
	Note	LVL	LVL	EUR	EUR
OWN CAPITAL					
Share capital		387 136	387 136	550 845	550 845
Increase of the price of issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	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		59 864	15 988	85 179	22 749
TOTAL		3 827 878	3 768 014	5 446 580	5 361 401
TOTAL OWN CAPITAL		3 827 878	3 768 014	5 446 580	5 361 401
CREDITORS					
Long-term creditors					
Company's deferred income tax		119 817	143 340	170 484	203 954
Long-term loans from credit institutions		820 310	1 454 422	1 167 196	2 069 456
Financial lease liabilities long-term part		84 051	222 251	119 594	316 235
Other creditors		925 359	1 388 038	1 316 667	1 975 000
Deferred incomes long-term part		540 393	65 888	768 910	93 750
TOTAL		2 489 930	3 273 939	3 542 851	4 658 396
Short-term creditors					
Short-term loans from credit institutions		2 243 190	1 734 560	3 191 772	2 468 057
Financial lease liabilities short-term part		138 199	180 763	196 639	257 203
Advanced payments received from customers		-	135	-	192
Debts to suppliers and contractors		3 501 173	1 309 717	4 981 720	1 863 559
Debts to associated companies		119 527	75 561	170 072	107 514
Taxes payable		93 614	89 285	133 201	127 041
Other creditors		59 470	58 367	84 618	83 049
Incomes from following periods short-term part		16 241	16 241	23 109	23 109
Unpaid dividends from previous years		-	-	-	-
TOTAL		6 171 414	3 464 629	8 781 131	4 929 723
TOTAL CREDITORS		8 661 344	6 738 568	12 323 982	9 588 118
TOTAL LIABILITIES		12 489 222	10 506 582	17 770 562	14 949 519

Board:

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Cash flow account

I. Cash flow from basic activity		31.12.2010	31.12.2009	31.12.2010	31.12.2009
		LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes		49 559	20 014	70 516	28 477
a) wear and tear of fixed assets and intangible investments (+)		558 872	543 073	795 203	772 723
b) elimination of fixed assets and intangible investments		64 977	44 942	92 454	63 947
c) formation of accruals (except the accruals for insecure debts)		-	27 539	-	39 184
d) profit (-) or loss (+) from fluctuations of the exchange rate of foreign		-	10 035	-	14 279
e) incomes from the acknowledgement of financing		-	(16 241)	-	(23 109)
f) other interest incomes and the like incomes		-	-	-	-
g) writing off of long-term financial investments and short-term value of securities				-	-
h) interest payments and the like costs		155 840	206 753	221 740	294 183
2. Profit or loss before the corrections of impact of changes of		829 248	836 115	1 179 914	1 189 684
a) increase of the remainder of debtors' debts (-) or decrease (+)		102 430	150 160	145 745	213 658
b) increase of the remainder of reserves (-) or decrease (+)		(487 348)	(501 554)	(693 434)	(713 647)
c) increase of the remainder of debts payable to suppliers, contractors and other creditors (+) or decrease(-)		2 229 022	892 561	3 171 613	1 270 000
3 Gross cash flow from basic activity		2 673 352	1 377 282	3 803 837	1 959 696
4. Expenditures to interest payers		(155 840)	(206 753)	(221 740)	(294 183)
5. Expenditures for paying company's income tax and immovable property tax		10 305	(4 026)	14 663	(5 728)
6. Cash flow before extraordinary items		2 527 817	1 166 503	3 596 760	1 659 784
7. Cash flow from extraordinary items					
Net cash flow from basic activity		2 527 817	1 166 503	3 596 760	1 659 784
II. Cash flow from investment activities					
1. Purchase or alienation of shares or parts of related or associated companies		-	-	-	-
2. Granted loans		-	-	-	-
3. Purchase of fixed assets and intangible assets		(90 199)	(241 664)	(128 342)	(343 857)
4. Advanced payments (expenditures) for fixed assets and unfinished construction.		(541 612)	(126 593)	(770 644)	(180 126)
5. Incomes from selling fixed assets and intangible investments		(1 598 822)	(580 116)	(2 274 919)	(825 431)
6. Received interest		-	-	-	-
6. Net cash flow from investing activities		(2 230 633)	(948 373)	(3 173 905)	(1 349 413)
III. Cash flow from financing activities					
1. Received loans		-	-	-	-
2. Received financing from the EU		-	-	-	-
3. Received investment in capital		-	-	-	-
4. Expenditures to pay back loans		(306 246)	(678 740)	(435 749)	(965 760)
5. Expenditures for redemption of a hired fixed asset		-	-	-	-
6. Disbursed dividends		-	-	-	-
6. Net cash flow from financing activity		(306 246)	(678 740)	(435 749)	(965 760)
IV. Result of fluctuations of the exchange rate of foreign currency		-	-	-	-
V. Net cash flow of the year of account increase (+), decrease (-)		(9 062)	(460 610)	(12 894)	(655 389)
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		8 536	17 598	12 146	25 040

Board:

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Member of the boardGundars Maurs
Member of the boardGatis Zommers
Member of the board

Account of 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/(los s) of the year of account	Currency fluctuations due to recalculation of foreign	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
31.12.2008.	387 136	1 987	2 623 085	800 242	(62 674)	-	-	3 749 776
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2008	-	-	-	-	-	-	-	-
Disbursed dividends	-	-	-	-	-	-	-	-
Reserves from reestimation on fixed assets	-	-	-	2 250	-	-	-	2 250
Profit of the year of account, corrected	-	-	-	-	-	15 988	-	15 988
31.12.2009.	387 136	1 987	2 623 085	802 492	(62 674)	15 988	-	3 768 014
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Reserves of recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2009	-	-	-	-	15 988	(15 988)	-	-
Reserves from reestimation on fixed assets	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	115 720	-	115 720
30.09.2010	387 136	1 987	2 623 085	802 492	(46 686)	115 720	-	3 883 734

	Share capital	Share premium	Other reserves	Reserves from reestimation on fixed assets	Retained earnings/loss from the previous year	Retained earnings/(los s) of the year of account	Currency fluctuations due to recalculation of foreign currency	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2008.	550 845	2 827	3 732 314	1 138 642	(89 177)	-	-	5 335 451
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
31.12.2009.	550 845	2 827	3 732 314	1 141 843	(89 177)	22 749	-	5 361 401
Currency fluctuations due to recalculation	-	-	-	-	-	-	-	-
Reserves of recalculation	-	-	-	-	-	-	-	-
Distribution of the profit of year 2009	-	-	-	-	22 749	(22 749)	-	-
Reserves from reestimation on fixed assets	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	164 655	-	164 655
30.09.2010	550 845	2 827	3 732 314	1 141 843	(66 428)	164 655	-	5 526 056

Board:

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Chairman of the board

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Member of the board

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Member of the board

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.

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 (LVL), except in OOO Saldus and OOO DOK Nr.3 where the used currency is RUB (Russian roubles).

All operations in foreign currencies are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia on the day of corresponding operation. On the last day of the year of account, funds and liabilities in foreign currency are revaluated in Latvian lats in accordance with the exchange rate established by the Bank of Latvia. Differences in exchange rates, which occur because of payments made in different currencies, are disclosed in profit- loss calculation in their net value. Regarding the capital of OOO Saldus

and OOO DOK Nr.3, conversion of currency, used in these companies, into currency, used in the holding company, is done by taking into consideration the exchange rate, which is valid on the day of balance, but regarding profit or loss items- the exchange rate, which is valid at the end of the year of account. The corrections of revaluation are shown in a separate item of the own capital.

	31.12.2010.	31.12.2009
RUB/ LVL	0.0176	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 systems, software	- 5 years

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

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

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

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

Decrease of the value of assets

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

Costs of loans

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

Leasing

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

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

Reserves

Unfinished production

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

Materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers and other debtors

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

Money and its equivalents

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

Share capital

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

Profit per share

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

Credits and loans

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

Further loans will be shown in their amortized value.

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

Accruals

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

Accruals and deferred liabilities

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

Income acknowledgement

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

Rendering of services

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

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

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

Sale of goods

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

Interest

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

Dividends

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

Leasing incomes

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

Taxes

Company's income tax

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

Deferred income tax

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

Possible liabilities and assets

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

Employee benefits

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

Connected persons

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

Events after the end of the year of account

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

1. Segments of the holding company's activity

	logging		wood processing		Other undividable		Total	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	9 180 503	5 026 631	10 375 038	4 052 320	90 952	94 259	19 646 493	9 173 210
Production costs of sold production	(7 097 722)	(4 075 513)	(10 384 317)	(3 630 152)	(482 492)	(354 115)	(17 964 531)	(8 059 780)
Selling costs	(1 259 051)	(806 240)	(14 949)	(29 623)	(75 085)	(134)	(1 349 085)	(835 997)
General and administration costs	(3 684)	(20 944)	(4 958)	(1 928)	(148 178)	(135 657)	(156 820)	(158 529)
Other incomes/ (expenditures)	(17 778)	42 546	89 150	44 035	(42 030)	21 282	29 342	107 863
from economic activity								
Segment's profit	802 268	166 480	59 964	434 652	(656 833)	(374 365)	205 399	226 767
Incomes from participation in the company's capital							-	-
Financial costs, net	(41 254)	(75 549)	(11 757)	(3 355)	(102 829)	(127 849)	(155 840)	(206 753)
Company's income tax (undivided)	-	-	-	-	-	8 119	-	8 119
Other taxes	-	(611)	(4 476)	(3 102)	14 781	(8 432)	10 305	(12 145)
Net result	761 014	90 320	43 731	428 195	(744 881)	(502 527)	59 864	15 988
Segment's assets	4 815 186	5 629 728	5 463 590	2 237 383	2 210 446	2 639 471	12 489 222	10 506 582
Segment's liabilities	5 406 264	4 585 397	5 099 975	1 688 779	1 982 983	4 232 406	12 489 222	10 506 582

	logging		wood processing		Other		Total	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	13 062 679	7 152 252	14 762 349	5 765 932	129 413	134 118	27 954 441	13 052 302
Production costs of sold production	(10 099 149)	(5 798 933)	(14 775 552)	(5 165 241)	(686 524)	(503 860)	(25 561 225)	(11 468 034)
Selling costs	(1 791 468)	(1 147 176)	(21 271)	(42 150)	(106 836)	(191)	(1 919 575)	(1 189 517)
General and administration costs	(5 242)	(29 801)	(7 055)	(2 743)	(210 838)	(193 023)	(223 135)	(225 566)
Other incomes/ (expenditures) from economic activity	(25 296)	60 538	126 849	62 656	(59 803)	30 282	41 750	153 475
Segment's profit	1 141 525	236 880	85 321	618 454	(934 589)	(532 673)	292 256	322 660
Incomes from participation in the company's capital	-	-	-	-	-	-	-	-
Financial costs, net	(58 699)	(107 497)	(16 729)	(4 774)	(146 312)	(181 913)	(221 740)	(294 183)
Company's income tax (undivided)	-	-	-	-	-	11 552	-	11 552
Other taxes	-	(869)	(6 369)	(4 414)	21 031	(11 998)	14 663	(17 281)
Net result	1 082 825	128 514	62 224	609 267	(1 059 870)	(715 032)	85 179	22 749
Segment's assets	6 851 392	8 010 381	7 773 988	3 183 509	3 145 181	3 755 629	17 770 562	14 949 519
Segment's liabilities	7 692 421	6 524 432	7 256 611	2 402 916	2 821 531	6 022 171	17 770 562	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.

	31.12.2010 LVL	31.12.2009 LVL	31.12.2010 EUR	31.12.2009 EUR
Incomes from sales including	18 763 739	8 819 924	26 698 395	12 549 621
Latvia	18 763 739	8 819 058	26 698 395	12 548 389
European Union countries		866	0	1 232
Other countries	-		-	0
Incomes from rendering of services, including	882 754	353 286	1 256 046	502 681
Latvia	882 754	353 286	1 256 046	502 681
European Union countries			0	0
	19 646 493	9 173 210	27 954 441	13 052 302

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 December 31, 2010, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

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

Joint-stock company „Saldus mežrūpniecība”

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Registration number: 40003020121

Annual Report
for the year 2010