

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2010

DRAWN-UP 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 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 Melrkalns (<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>)
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 – December 31, 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 – 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

Consolidated report of the commercial activity for 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 9 months of 2010 with the losses LVL 17084 by the turnover of LVL 19 660 219, which makes a losses per share of LVL 0,04

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

Consolidated profit or loss calculation

	Note	31.12.2010 LVL	31.12.2009 LVL	31.12.2010 EUR	31.12.2009 EUR
Net turnover		19 660 219	9 285 030	27 973 971	13 211 407
Production costs of the sold production		(18 007 191)	(8 202 985)	(25 621 924)	(11 671 796)
Gross profit		1 653 028	1 082 045	2 352 047	1 539 611
Selling costs		(1 372 436)	(870 902)	(1 952 800)	(1 239 182)
General administration costs		(194 133)	(168 189)	(276 226)	(239 311)
Other income from company's economic activity		522 123	474 864	742 914	675 671
Other expenditures from company's economic activity		(480 516)	(210 535)	(683 713)	(299 564)
Profit or loss from economic activity		128 066	307 283	182 222	437 224
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 payments		(141 516)	(235 079)	(201 359)	(334 487)
Profit or loss before extraordinary items and taxes		(13 450)	72 204	(19 138)	102 737
Extraordinary income					
Extraordinary expenditures					
Profit or loss before taxes		(13 450)	72 204	(19 138)	102 737
Company's income tax		-	(35 084)	-	(49 920)
Company's deferred income tax		23 523	43 203	33 470	61 472
Other taxes		(27 157)	(30 510)	(38 641)	(43 412)
Profit or (loss)		-17 084	49 813	-24 308	70 878
Profit/ (loss) per share					
LVL per share / EUR per share		(0.04)	0.13	(0.06)	0.18

Board :

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

Consolidated balance sheet**ASSETS**

	Note	31.12.2010 LVL	31.12.2009 LVL	31.12.2010 EUR	31.12.2009 EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like		34 202	46 159	48 665	65 678
Company's intangible value		132 000	132 000	187 819	187 819
Advance payments for intangible investments		-	-	-	-
TOTAL	13	166 202	178 159	236 484	253 497
Fixed assets					
Land, premises and buildings		2 833 360	2 936 595	4 031 508	4 178 398
Biological assets		553 296	553 296	787 269	787 269
Equipment and machinery		1 236 146	1 320 805	1 758 877	1 879 336
Other fixed assets		18 468	17 232	26 278	24 519
Unfinished constructions		1 480 296	1 158 674	2 106 271	1 648 645
Advance payments for fixed assets		1 405 810	29 728	2 000 287	42 299
TOTAL	14	7 527 376	6 016 330	10 710 491	8 560 466
Long-term financial investments					
Participation in the capital of related companies		-	-	-	-
Loans to the related companies		-	-	-	-
TOTAL		-	-	-	-
TOTAL LONG-TERM INVESTMENTS		7 693 578	6 194 489	10 946 975	8 813 964
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		245 709	251 463	349 612	357 800
Biological assets		298 760	298 760	425 097	425 097
Unfinished production		2 822 260	1 300 105	4 015 714	1 849 883
Finished production and goods for sale		446 749	284 930	635 667	405 419
Advance payments for goods		123 085	1 383 048	175 134	1 967 900
TOATL	15	3 936 563	3 518 306	5 601 225	5 006 098
Debtors					
Debts of buyers and customers	16	476 594	670 443	678 132	953 954
Accured income		180 236	122 702	256 453	174 589
Other debtors	17	1 224	1 141	1 742	1 623
Expenditures of the next periods	18	293 211	239 881	417 202	341 320
TOTAL		951 265	1 034 167	1 353 528	1 471 487
Money and its equivalents	19	98 445	20 181	140 075	28 715
TOTAL CURRENT ASSETS		4 986 273	4 572 654	7 094 827	6 506 300
TOTAL ASSETS		12 679 851	10 767 143	18 041 803	15 320 264

Board:

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

Consolidate balance sheet (continuation)

Shareholders'equity and liabilities	Note	31.12.2010 LVL	31.12.2009 LVL	31.12.2010 EUR	31.12.2009 EUR
Shareholders'equity					
Share capital		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		(48 559)	(116 904)	(69 093)	(166 339)
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		(242 242)	(285 981)	(344 679)	(406 914)
Retained earnings from the year of accunt		(17 084)	49 813	(24 308)	70 878
TOTAL		3 506 815	3 461 628	4 989 748	4 925 453
Total shareholders'equity		3 506 815	3 461 628	4 989 748	4 925 453
Liabilities					
Long-term liabilities					
Deferred company's income tax		119 817	143 340	170 484	203 954
Long-term loans from credit institutions		1 147 488	1 840 686	1 632 728	2 619 060
Long-term part of financial lease liabilities		105 961	244 161	150 769	347 410
Other creditors		925 359	1 388 038	1 316 667	1 975 000
Long-term part of incomes from next periods		540 393	65 888	768 910	93 750
TOTAL		2 839 018	3 682 113	4 039 559	5 239 175
Short-term liabilities					
Short-term loans from credit institutions		2 255 824	1 752 536	3 209 748	2 493 634
Short-term part of financial lease		140 822	189 670	200 372	269 876
Advance payments received from buyers		115 125	74 805	163 808	106 438
Debts to suppliers and contractors		3 524 213	1 355 362	5 014 503	1 928 506
Accured liabilities		119 527	75 561	170 072	107 514
Taxes payable		96 582	93 675	137 424	133 288
Other creditors		65 684	65 552	93 460	93 272
Incomes from the next periods short-term part		16241	16241	23 109	23 109
Unpaid dividends from the previous years				-	-
TOTAL		6 334 018	3 623 402	9 012 496	5 155 637
Total liabilities		9 173 036	7 305 515	13 052 054	10 394 811
Total shareholders'equity and liabilities		12 679 851	10 767 143	18 041 803	15 320 264

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated cash flow statement

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:	(13 450)	72 204	(19 138)	102 737
a) wear and tear of fixed assets and intangible investments (+)	587 099	643 790	835 367	916 031
b) elimination of fixed assets and intangible investments	169 861	49 787	241 690	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	(183 830)	(154 839)	(261 567)	(220 316)
h) interest payments and the like expenditures	325 346	217 412	462 926	309 349
2. Profit or loss before the corrections of the impact of balance	885 026	850 737	1 259 279	1 210 490
a) debitoru parādu atlikumu pieaugums (-) vai samazinājums (+)	126 646	63 155	180 201	89 861
b) increase (+) or decrease (-) of the reserves of accruals	(422 374)	(427 032)	(600 984)	(607 612)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	2 186 066	922 945	3 110 492	1 313 232
3. Gross cash flow from basic activity	2 775 364	1 409 805	3 948 987	2 005 972
4. Expenditures to pay interest payments	(325 346)	(242 973)	(462 926)	(345 719)
5. Expenditures to pay company's income tax and immovable property tax	(3 634)	(22 546)	(5 171)	(32 080)
6. Cash flow before extraordinary items	2 446 384	1 144 286	3 480 891	1 628 172
7. Cash flow from extraordinary items				
8. Net cash flow from basic activity	2 446 384	1 144 286	3 480 891	1 628 172
II. Cash flow from investments				
3. Acquisition of fixed assets and intangible investments	(545 132)	(133 006)	(775 653)	(189 250)
4. Expenditures for advance payments for fixed assets and unfinished constructions	(1 676 622)	(580 116)	(2 385 618)	(825 431)
5. Income from selling fixed assets and intangible investments	15 544	2 085	22 117	2 967
6. Interest received	183 830	-	261 567	-
6. Net cash flow from investments	(2 022 380)	(711 037)	(2 877 587)	(1 011 715)
III. Cash flow from financing activities				
1. Loans received	-	-	-	-
2. EU financing received			-	-
3. Received investments in capital			-	-
4. Expenditures for paying back loans	(356 567)	(884 748)	(507 349)	(1 258 883)
5. Expenditures for redemption of asset that was hired	-	-	-	-
6. Paid out dividends	-	-	-	-
6. Net cash flow from financing activities	(356 567)	(884 748)	(507 349)	(1 258 883)
IV. The result of the exchange rate fluctuations	10 827	(140)	15 405	(199)
V. Net cash flow of the year of account increase (+), decrease (-)	78 264	(451 639)	111 360	(642 624)
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	98 445	29 135	140 075	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
December 31, 2008	387 136	1 987	2 623 085	800 242	(66 905)	(219 076)	(120 056)	3 406 413
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
December 31, 2009	387 136	1 987	2 623 085	802 492	(285 981)	49 813	(116 904)	3 461 628
Currency fluctuations due to recalculation					(6 079)		68 345	62 266
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	-	-	-	-	-	(17 084)	-	(17 084)
December 31, 2010	387 136	1 987	2 623 085	802 492	(242 242)	(17 084)	(48 559)	3 506 815

	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
December 31, 2008	550 845	2 827	3 732 314	1 138 642	(95 197)	(311 717)	(170 824)	4 846 889
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
December 31, 2009	550 845	2 827	3 732 314	1 141 843	(406 914)	70 878	(166 339)	4 925 453
Currency fluctuations due to recalculation	-	-	-	-	(8 650)	-	97 246	88 597
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	-	-	-	-	-	(24 308)	-	(24 308)
December 31, 2010	550 845	2 827	3 732 314	1 141 843	(344 679)	(24 308)	(69 093)	4 989 748

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.

	31.12.2010.	31.12.2009.
RUB/ LVL	0.0176	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	
	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	9 182 273	5 042 949	10 386 994	4 147 822	90 952	94 259	19 660 219	9 285 030
Production costs of sold products	(7 099 094)	(4 094 996)	(10 422 224)	(3 750 368)	(485 873)	(357 621)	(18 007 191)	(8 202 985)
Selling costs	(1 259 051)	(832 395)	(38 300)	(38 373)	(75 085)	(134)	(1 372 436)	(870 902)
General administration costs	(6 631)	(27 048)	(38 557)	(3 808)	(148 945)	(137 333)	(194 133)	(168 189)
Other incomes/expenditures from economic activity	(20 464)	40 290	104 341	210 616	(42 270)	13 423	41 607	264 329
Segment profit	797 033	128 800	(7 746)	565 889	(661 221)	(387 406)	128 066	307 283
Financial expenditures, net	(56 873)	(75 549)	15 640	(28 916)	(100 283)	(130 614)	(141 516)	(235 079)
Company income tax (undistributable)						8 119	-	8 119
Other taxes	(1 312)	(611)	(16 918)	(21 205)	14 596	(8 694)	(3 634)	(30 510)
Net result	738 848	52 640	(9 024)	515 768	(746 908)	(518 595)	(17 084)	49 813
Segment assets	4 911 297	5 572 867	5 721 537	2 626 704	2 047 017	2 567 572	12 679 851	10 767 143
Segment liabilities	5 502 375	4 561 324	5 357 922	2 148 346	1 819 554	4 057 473	12 679 851	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	13 065 197	7 175 470	14 779 361	5 901 819	129 413	134 118	27 973 971	13 211 407
Production costs of sold products	(10 101 101)	(5 826 654)	(14 829 489)	(5 336 293)	(691 335)	(508 849)	(25 621 924)	(11 671 796)
Selling costs	(1 791 468)	(1 184 391)	(54 496)	(54 600)	(106 836)	(191)	(1 952 800)	(1 239 182)
General administration costs	(9 435)	(38 486)	(54 862)	(5 418)	(211 930)	(195 407)	(276 226)	(239 311)
Other incomes/expenditures from economic activity	(29 118)	57 328	148 464	299 680	(60 145)	19 099	59 201	376 106
Segment profit	1 134 076	183 266	(11 022)	805 188	(940 833)	(551 229)	182 222	437 224
Financial expenditures, net	(80 923)	(107 497)	22 254	(41 144)	(142 690)	(185 847)	(201 359)	(334 487)
Company income tax	-	-	-	-	-	11 552	-	11 552
Other taxes	(1 867)	(869)	(24 072)	(30 172)	20 768	(12 370)	(5 171)	(43 412)
Net result	1 051 286	74 900	(12 840)	733 872	(1 062 754)	(737 894)	(24 308)	70 878
Segment assets	6 988 146	7 929 475	8 141 014	3 737 463	2 912 643	3 653 326	18 041 803	15 320 264
Segment liabilities	7 829 174	6 490 179	7 623 636	3 056 821	2 588 992	5 773 264	18 041 803	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.

	31.12.2010 LVL	31.12.2009 LVL	31.12.2010 EUR	31.12.2009 EUR
Income from sales, int. Al.	18 774 693	8 927 196	26 713 981	12 701 023
Latvia	18 763 739	8 819 058	26 698 395	12 548 389
Russia	10 954	107 272	15 586	152 634
the EU countries		866		
Income from rendering of services, int. Al.	885 526	357 834	1 259 990	502 681
Latvia	882 754	353 286	1 256 046	502 681
Russia	2 772		3 944	0
	19 660 219	9 285 030	27 973 971	13 203 704

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 December 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.