

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2011

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

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2012

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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 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 (till September 23, 2011)
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, 2011
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>)
Legal status of the company	(100%) Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2011
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, 2011

Management announcement

To Report of economic activity for the 2011

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.

Profit of A/s „Saldus mežrūpniecība” for the year 2011 are 534 956 LVL at the net turnover of 25 400 249 LVL, which means profit on one share issued of 1.38 LVL.

The financial report is prepared on the base of information that is at share company board's disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company. There is true information included in the announcement.

Forecasts for financial statments and operational plans of 2012

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

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 by searching for new markets and analyzing client's solvency. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.

The interests of the commercial company are the care for social protection and welfare of its employees, because only thus the development of society can be sustainable.

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economic activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks.

April 30, 2012

Valde:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gundars Maurs
valdes loceklis

Gatis Zommers
valdes loceklis

Statement of Management Responsibility

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

The Management confirms that, in preparing this report for the period ending on 31 December 2011, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

Profit or loss calculation

	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Net turnover	4	25 900 941	19 646 498	36 853 719	27 954 448
Production costs of the sold production	5	-24 191 378	-18 561 546	-34 421 230	-26 410 701
Gross profit		1 709 563	1 084 952	2 432 489	1 543 748
Selling costs	6	-726 954	-818 045	-1 034 362	-1 163 973
General administration costs	7	-213 164	-192 898	-303 305	-274 469
Other income from company's economic activity	8	331 861	407 571	472 196	579 921
Other expenditures from company's economic activity	8	-458 554	-489 188	-652 464	-696 052
Profit or loss from economic activity		642 752	-7 608	914 554	-10 825
Other interest income and the like income	9	28 103		39 987	0
Other interest payments and the like payments	9	-236 117	-157 409	-335 964	-223 973
Profit or loss before extraordinary items and taxes		434 738	-165 017	618 576	-234 798
Company's income tax	10				
Company's deferred income tax	11	113 877	15 490	162 032	22 040
Other taxes	12	-13 659	-13 218	-19 435	-18 808
Profit or (loss)		534 956	-162 745	761 174	-231 565

The annex is an integral part of this financial statement

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Balance sheet

ASSETS

	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like items		10 114	17 837	14 391	25 380
TOTAL	13	10 114	17 837	14 391	25 380
Fixed assets					
Land, premises and buildings		3 506 275	2 781 578	4 988 980	3 957 829
Equipment and machinery		3 125 983	1 140 975	4 447 873	1 623 461
Other fixed assets		51 232	18 205	72 897	25 903
Unfinished constructions		88 109	836 041	125 368	1 189 579
Advance payments for fixed assets		3 335 699	1 405 810	4 746 272	2 000 287
TOTAL	14	10 107 298	6 182 609	14 381 389	8 797 060
Biological assets					
		677 492	636 134	963 984	905 137
Long-term financial investments					
Participation in the capital of related companies	15	415 142	415 142	590 694	590 694
Loans to the related companies	16	832 442	731 541	1 184 458	1 040 889
Deferred company's income tax		25 030		35 614	
TOTAL		1 272 614	1 146 683	1 810 767	1 631 583
TOTAL LONG-TERM INVESTMENTS		12 067 518	7 983 263	17 170 531	11 359 160
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		13 858	39 313	19 718	55 937
Biological assets		399 707	337 995	568 732	480 924
Unfinished production		1 248 415	2 843 643	1 776 335	4 046 139
Finished production and goods for sale		566 134	142 978	805 536	203 439
Advance payments for goods		17 153	160 055	24 407	227 738
TOATL	17	2 245 267	3 523 984	3 194 727	5 014 177
Noncurrent assets held for sale					
Fixed assets held for sale		89 654	210 197	127 566	299 083
Debtors					
Debts of buyers and customers	18	227 536	371 737	323 755	528 934
Debts of subsidiaries	18	240 056	42 524	341 569	60 506
Other debtors	19	69 044	141 894	98 241	201 897
Expenditures of the next periods	20	33 239	37 510	47 295	53 372
TOTAL		569 875	593 665	810 859	844 709
Money and its equivalents	21	4 531	8 536	6 447	12 146
TOTAL CURRENT ASSETS		2 909 327	4 336 382	4 139 599	6 170 116
TOTAL ASSETS		14 976 845	12 319 645	21 310 131	17 529 276

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Balance sheet (continuation)

LIABILITIES	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Shareholders'equity					
Share capital	22	387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	802 492	1 141 843	1 141 843
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		-100 796	61 949	-143 420	88 145
Retained earnings from the year of accunt		534 956	-162 745	-18 808	-231 565
Total shareholders'equity		4 248 860	3 713 904	5 265 602	5 284 409
Acruals for holiday	28	86 967	119 527	123 743	170 072
TOTAL		86 967	119 527	123 743	170 072
Long-term liabilities					
Deferred company's income tax			88 848	0	126 419
Long-term loans from credit institutions	23	3 846 226	820 310	5 472 687	1 167 196
Long-term part of financial lease liabilities	24	7 415	84 051	10 551	119 594
Other creditors		0	925 359	0	1 316 667
Long-term part of incomes from next periods	30	764 561	540 393	1 087 872	768 910
TOTAL		4 618 202	2 458 961	6 571 109	3 498 786
Short-term liabilities					
Short-term loans from credit institutions	23	130 370	2 243 190	185 500	3 191 772
Short-term part of financial lease	24	130 786	138 199	186 092	196 639
Debts to suppliers and contractors	25	4 408 474	3 459 619	6 272 693	4 922 594
Accured liabilities	29	43 393	17 041	61 743	24 247
Taxes payable	26	137 749	93 499	195 999	133 037
Other creditors	27	990 000	59 464	1 408 643	84 610
Incomes from the next periods short-term part	30	182 044	16 241	259 025	23 109
TOTAL		6 022 816	6 027 253	8 569 695	8 576 008
Total liabilities		10 641 018	8 486 214	15 140 805	12 074 795
TOTAL LIABILITIES		14 976 845	12 319 645	20 530 149	17 529 276

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Cash flow statement

	2011 LVL	2010 LVL
I. Cash flow from basic activity		
Profit (+) or loss (-) before extraordinary items and taxes:	434738	-165017
wear and tear of fixed assets and intangible investments (+)	672256	558871
elimination of fixed assets and intangible investments	-95104	9103
revaluation of long-term investments	0	109184
revaluation of biological assets	-103070	-82838
Accruals (except accruals for doubtful debts)	-32560	0
profit (-) or loss (+) from fluctuations of exchange rate	-27635	1348
Interest income	-25750	0
Income from finansation recognition	-91925	-16241
Interest expenditure	124054	123556
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	855004	537966
increase (+) or decrease (-) of debtors debt	169 100	308 355
increase (+) or decrease (-) of the reserves of accruals	1 389 120	-502 450
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	1 004 486	2 169 437
Gross cash flow from basic activity	3 417 710	2 513 308
Expenditures to pay interest payments	-123351	-123556
Expenditures to pay company's income tax and immovable property tax	-15774	-98302
Net cash flow from basic activity	3278585	2291450
II. Cash flow from investments		
Income from selling fixed assets and intangible investments	15112	3195
Acquisition of fixed assets and intangible investments	-3315848	-542380
Expenditures for advance payments for fixed assets and unfinished	-1219530	-1391602
Loans issued	-73319	-105787
Income from loans repaymens	0	14240
Net cash flow from investments	-4593585	-2022334
III. Cash flow from financing activities		
Recieved loans	1043466	0
Recieved subsidies, donations or benefactions	481896	490746
Expenditures for paying back loans	-130370	-588160
Expenditures for redemption of asset that was hired	-84049	-180764
Cash flow from financing activities	1310943	-278178
IV. Fluctuations of exchange rate	52	
V. Net cash flow of the year of account increase (+), decrease (-)	-4 005	-9 062
VI. Money and its equivalents balance at the beginning of the year of account	8 536	17 598
VII. Money and its equivalents balance at the end of the year of account	4 531	8 536

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Statement on the changes in own capital

	Share capital	Share premium	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2009	387 136	1 987	802 492	2 623 085	-28 125	90 074	3 876 649
Distribution of profit of the year 2009	0	0			90 074	-90 074	0
Profit of the year of account	0	0				-162 745	-162 745
December 31, 2010	387 136	1 987	802 492	2 623 085	61 949	-162 745	3 713 904
Distribution of profit of the year 2010	0				-162 745	162 745	0
Profit of the year of account	0	0		0		534 956	534 956
December 31, 2011	387 136	1 987	802 492	2 623 085	-100 796	534 956	4 248 860
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2009	550 845	2 827	1 141 843	3 732 314	-40 018	128 164	5 515 975
Distribution of profit of the year 2009	0	0	0	0	128 164	-128 164	0
Profit of the year of account	0	0	0	0	0	-231 565	-231 565
December 31, 2010	550 845	2 827	1 141 843	3 732 314	88 145	-231 565	5 284 409
Distribution of profit of the year 2010	0	0		0	-231 565	231 565	0
Profit of the year of account	0	0		0		761 173	761 174
December 31, 2011	550 845	2 827	1 141 843	3 732 314	-143 420	761 173	6 045 583

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Annex to the financial statement

1. Corporative information

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

2. Important accounting principles

Basis of preparation

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

The financial statements of JSC „Saldus mežrūpniecība have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports applicable in the reporting year.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2011 through 31 December 2011.

Use of calculations (continuation)

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

Decrease of the value of assets

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

Foreign currency translation

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

Currency exchange rates established by the Bank of Latvia:.

	31.12.2011	31.12.2010
	Ls	Ls
1 RUB	0.0170	0.0176
1 EUR	0.702804	0.702804

Intangible investment

Intangible assets include software licences used in the company, intangible value and other intangible assets.

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

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

Depreciation is calculated for the whole period of useful life by a stright line method. Costs associated with maintenance of software are accounted as costs in the income statement. See Paragraph 13 of the Annex.

Property, plant and equipment

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

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

Buildings	10-20 years
Equipment and machinery	2-10 years
Forestry equipment	3- 5 years
Timber processing lines	3-10 years
Other property, plant and equipment	2-10 years
Data processing and storage equipment, software	2-5 years

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

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

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

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

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2011 applying discount rate of 6%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2011. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

Reserves

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

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

Accruals

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

Credits and loans

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

Lease

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

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

More detailed information on this finance lease is available in Note 24.

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:

Rendering of services

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

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

Sale of goods

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

Interest

Interest is recognised according to savings method.

Dividends

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

Income from lease

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

Corporate income tax

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

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

Associated persons

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

Possible liabilities and assets

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

Share capital

Company is a joint stock company. Company share capital is dividend in common shares. All shares are denominated and are dematerialised. More detailed information on spread of share capital is given in the Note 22.

Accruals and deferred liabilities

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

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		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6 733 596	9 180 503	18 318 723	10 375 043	848 622	90 952	25 900 941	19 646 498
Product costs of sold products	-6 000 254	-7 839 875	-17 623 971	-10 425 538	-567 153	-296 133	-24 191 378	-18 561 546
Selling cost	-649 068	-763 257	-11 717	-14 949	-66 169	-39 839	-726 954	-818 045
General administration cost	-5 922	-4 336	-12 781	-4 958	-194 461	-183 604	-213 164	-192 898
Other income/expenditures from economic activity	-19 099	115 635	-111 053	87 357	3 459	-284 609	-126 693	-81 617
Segment profit	59 253	688 670	559 201	16 955	24 298	-713 233	642 752	-7 608
Financial expenditure	-6 581	-48 475	-19 592	-13 639	-181 841	-95 295	-208 014	-157 409
Company income tax (undistributable)					113 877	15 490	113 877	15 490
Other taxes			-5 019	-4 476	-8 640	-8 742	-13 659	-13 218
Neto rezultāts	52 672	640 195	534 590	-1 160	-52 306	-801 780	534 956	-162 745
Segment assets	4 034 535	5 635 006	10 459 905	6 072 139	448 282	612 500	14 942 722	12 319 645
Segment liabilities	3 137 972	4 900 005	11 057 614	5 582 138	747 136	1 837 502	14 942 722	12 319 645

	Logging		Timber processing		Other		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 581 044	13 062 679	26 065 195	14 762 356	1 207 480	129 413	36 853 719	27 954 448
Product costs of sold products	-8 537 592	-11 155 137	-25 076 652	-14 834 204	-806 986	-421 359	-34 421 230	-26 410 701
Selling cost	-923 541	-1 086 017	-16 672	-21 271	-94 150	-56 686	-1 034 362	-1 163 973
General administration cost	-8 426	-6 170	-18 186	-7 055	-276 693	-261 245	-303 305	-274 469
Other income/expenditures from economic activity	-27 175	164 534	-158 014	124 298	4 922	-404 962	-180 268	-116 131
Segment profit	84 309	979 889	795 671	24 125	34 573	-1 014 839	914 554	-10 825
Financial expenditure	-9 364	-68 974	-27 877	-19 407	-258 736	-135 593	-295 977	-223 973
Company income tax (undistributable)	0	0	0	0	162 032	22 040	162 032	22 040
Other taxes	0	0	-7 141	-6 369	-12 294	-12 439	-19 435	-18 808
Neto rezultāts	74 946	910 915	760 653	-1 651	-74 425	-1 140 830	761 174	-231 565
Segment assets	5 740 626	8 017 891	14 883 105	8 639 875	637 848	871 509	21 261 578	17 529 276
Segment liabilities	4 464 931	6 972 079	15 733 568	7 942 667	1 063 079	2 614 530	21 261 578	17 529 276

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.

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Income from sales, int. Al.	24 437 664	18 763 744	34 771 663	26 698 402
Latvia	24 437 664	18 763 744	34 771 663	26 698 402
the EU countries				
Other countries				
Income from rendering of services, int. Al.	1 371 308	882 754	1 951 195	1 256 046
Latvia	1 371 308	882 754	1 951 195	1 256 046
the EU countries				
Other countries				
Financing of the EU structural funds	91 969		130 860	
	25 900 941	19 646 498	36 853 719	27 954 448

5. Production cost of products sold

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
<u>Production cost of products sold</u>				
Salary of employees	1 243 708	985 505	1 769 637	1 402 247
Social insurance costs	297 496	246 480	423 299	350 709
Reserve for vacation pays	-34 728	41 048	-49 413	58 406
Doubtful debtors reserve	21 809	198 526	31 031	282 477
Depreciation of property, plant and equipment	623 786	509 528	887 568	724 993
Costs of purchase of materials	455 707	364 178	648 413	518 179
Stem fee (purchase of cutting rights)	3 271 910	3 206 593	4 655 509	4 562 571
Purchase costs of sawn timber	14 671 457	7 341 104	20 875 603	10 445 450
Purchase costs of products in retail trade	69 366	70 942	98 699	100 941
Electricity and heating costs	286 246	170 293	407 291	242 305
Production related contractors expenses	1 742 979	4 760 728	2 480 036	6 773 906
Production equipment maintenance costs	1 495 974	620 717	2 128 579	883 201
Other services received	45 668	45 904	64 980	65 316
	24 191 378	18 561 546	34 421 230	26 410 701

6. Cost of sale

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Adevrtisement costs, market research, marketing	15 761	39 882	22 426	56 747
Transportation costs of goods	662 147	718 942	942 150	1 022 962
Other production costs	49 046	59 221	69 786	84 264
	726 954	818 045	1 034 362	1 163 973

7. General and administration costs

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Salaries to employees	66 711	65 288	94 921	92 896
Social insurance costs	16 071	15 750	22 867	22 410
Unused vacation pay reserve	2 168	2 918	3 084	4 152
Maintenance of administration capital assets	48 470	49 345	68 967	70 212
Expense associated with maintenance of administration	26 319	18 277	37 449	26 006
Office maintenance costs	39 711	30 849	56 504	43 894
Annual report expenses	2 600	1 500	3 699	2 134
Banking expenses	11 114	8 971	15 814	12 765
	213 164	192 898	303 304	274 469

8. Other operating income and expense

	2 011 LVL	2 010 LVL	2 011 EUR	2 010 EUR
<u>Other income</u>				
Income from services	4 413	273 695	6 279	389 433
Income from minimization of doubtful debt reserve	115 230	0	163 958	0
Net income from sale of logng term investment	99 005	0	140 871	0
Income from lease of fixed assets	93 726	85 143	133 360	121 148
Financing of the EU structural funds and LAD	19 487	32 492	27 728	46 232
Income of future periods	0	16 241	0	23 109
	331 861	407 571	472 196	579 921
<u>Other expense</u>			0	0
Net loss from exclusion of long term investment	0	3 983	0	5 667
Net loss from revaluation of long term investment	0	109 166	0	155 329
Dues paid for land plots used in production	31 416	31 832	44 701	45 293
Security costs	265 455	249 587	377 708	355 130
Personnal training costs (EU projects)	24 570	0	34 960	0
Other expense for provision of economic activities	137 113	94 620	195 094	134 632
	458 554	489 188	652 464	696 052

9. Financial income/ (expense), net

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
<u>Income</u>				
Income from currency exchange	0	141	0	201
Income from loan interest	25 750		36 639	
Other income	2 353	41	3 348	58
	28 103	182	39 987	259
<u>Expense</u>				
Currency exchange expense	87 535	2 293	124 551	3 263
Donations	300	9 100	427	12 948
Fines paid	6 137	7 298	8 732	10 384
Other expense	18 090	15 344	25 740	21 833
Loan interest calculated	120 278	117 128	171 140	166 658
Financial lease interest recognised	3 777	6 428	5 374	9 146
	236 117	157 591	335 964	224 232

10. Corporate income tax

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Current corporate income tax charge for the reporting year	0	0	0	0
Deferred corporate income tax	113 877	15 490	162 032	22 040
	113 877	15 490	162 032	22 040

11. Deferred corporate income tax:

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Liabilities of the deferred company income tax				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	5 559 340	2 834 400	7 910 228	4 032 988
Residual value of capital assets needed for taxes	4 484 996	1 859 430	6 381 574	2 645 731
Tax losses not covered	1 154 243	263 123	1 642 340	374 390
Accruals for holidays	86 987	119 527	123 771	170 072
Temporary difference	166 886	592 320	237 457	842 795
Liabilities of deferred tax	25 030	-88 848	35 614	-126 419
Assets of deferred tax	113 877	15 490	162 032	22 040

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

12. Other taxes

	2011	2010	2011	2010
	LVL	LVL	EUR	EUR
Real estate tax	13 659	13 218	19 435	18 808
	13 659	13 218	19 435	18 808

13. Intangible investment

	Software	Total
	LVL	LVL
As at 31.12.2010.	54 776	54 776
2011 Cost	424	424
Impairment	-306	-306
As at 31.12.2011.	54 893	54 893
Amortisation accrued 31.12.2010.	36 940	36 940
2011 Amortisation	8 056	8 056
Impairment	-216	-216
Amortisation accrued 31.12.2011.	44 780	44 780
As at 31.12.2010.	17 836	17 836
As at 31.12.2011.	10 114	10 114
Amortisation rate (by linear method)	5 gadi	
	EUR	EUR
As at 31.12.2010.	77 939	77 939
2011 Cost	603	603
Impairment	- 436	- 436
As at 31.12.2011.	78 106	78 106
Amortisation accrued 31.12.2010.	52 561	52 561
2011 Amortisation	11 462	11 462
Impairment	-307	-307
Amortisation accrued 31.12.2011.	63 716	63 716
As at 31.12.2010.	25 378	25 378
As at 31.12.2011.	14 390	14 390
Amortisation rate (by linear method)	5 gadi	

14. Capital assets

	Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished fixed assets	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Accounting value 31.12.2010.	3 423 508	3 059 760	70 576	836 041	1 405 810	8 795 695
2011 Purchase	65 945	178 536	47 011	323 432	3 977 875	4 592 799
Liquidity		-71 536	-3 534			-75 070
Reconstruction	775 136	2 344 214		-1 071 364	-2 047 986	0
Reshuffles						0
Accounting value 31.12.2011.	4 264 589	5 510 974	114 053	88 109	3 335 699	13 313 424
Accured wear and tear 31.12.2010.	641 929	1 918 785	52 371	0	0	2 613 085
2011 Wear and tear	116 384	535 198	12 618			664 200
Wear and tear of liquid assets		-68 992	-2 167			-71 159
Reshuffles						0
Accured wear and tear 31.12.2011.	758 313	2 384 991	62 822	0	0	3 206 126
Residual value 31.12.2010.	2 781 578	1 140 975	18 205	836 041	1 405 810	6 182 609
Residual value 31.12.2011.	3 506 275	3 125 983	51 232	88 109	3 335 699	10 107 298

Rate of wear and tear (linear method)	5-20 year EUR	4-10 year EUR	3-10 year EUR	EUR	EUR	EUR
Accounting value 31.12.2010.	4 871 213	4 353 646	100 421	1 189 579	2 000 287	12 515 147
2011 Purchase	93 831	254 034	66 891	460 202	5 660 006	6 534 964
Liquidity	0	-101 787	-5 028	0	0	-106 815
Reconstruction	1 102 919	3 335 516	0	-1 524 414	-2 914 022	0
Reshuffles	0	0	0	0	0	0
Accounting value 31.12.2011.	6 067 963	7 841 410	162 283	125 367	4 746 272	18 943 296
Accured wear and tear 31.12.2010.	913 383	2 730 185	74 517	0	0	3 718 085
2011 Wear and tear	165 600	761 518	17 953	0	0	945 071
Wear and tear of liquid assets	0	-98 167	-3 083	0	0	-101 250
Reshuffles	0	0	0	0	0	0
Accured wear and tear 31.12.2011.	1 078 983	3 393 537	89 387	0	0	4 561 907
Residual value 31.12.2010.	3 957 829	1 623 461	25 904	1 189 579	2 000 287	8 797 060
Residual value 31.12.2011.	4 988 980	4 447 874	72 896	125 367	4 746 272	14 381 389

Rate of wear and tear (linear
method)

5-20 year 4-10 year 3-10 year

Cadastral value has been set for buildings owned by the company in amount to 432 998 Ls (616 101 EUR) .

Cadastral value of lands at the balance date amounts to 341 504 Ls (485 916 EUR).

15. Investment in related companies

	Shares owned %	Investment value	Depreciation of value	Shareholders` equity	Accounting value of investment as at 31.12.2011
	LVL	LVL	LVL	LVL	LVL
SIA Pakuļu sporta bāze	100	146 000	109 166	-105 374	36 834
ООО Салдус	100	5 190		-105 980	5 190
ООО Деревообрабатывающий комбинат № 3	100	373 118		-105 399	373 118
total long term investment		524 308	109 166	-316 753	415 142
	EUR	EUR	EUR	EUR	EUR
SIA Pakuļu sporta bāze	100	207 739	155 329	-149 934	52 410
ООО Салдус	100	7 385	0	-150 796	7 385
ООО Деревообрабатывающий комбинат № 3	100	530 899	0	-149 969	530 899
total loans to related companies:		746 023	155 329	-450 699	590 694

16. Loans in related companies

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
SIA Pakuļu sporta bāze	129 580	0	184 376	0
ООО Салдус	18 955	19 416	26 971	27 626
ООО Деревообрабатывающий комбинат № 3	683 907	712 126	973 112	1 013 264
total loans to related companies:	832 442	731 542	1 184 458	1 040 890

	LVL	EUR
Outstanding loan amount as at 31.12.2010.	731 541	1 040 889
Total amount of provisions for unsecured debts as at 31.12.2010.	114 958	163 570
Accounting value as at 31.12.2010.	731 541	1 040 889
Amounts lendend in 2011 (+)	100 901	143 569
Repaid amounts in 2011 (-)	0	0
Provisions for unsecure loan amounts in 2011 (+/-)	-114 958	-163 570
Outstanding loan amount as at 31.12.2011	832 442	1 184 458
Total amount of provisions for unsecured debts as at 31.12.2011.	0	0

17. Inventories

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Materials, spare parts, inventory	13 858	39 313	19 718	55 937
Biological assets	399 707	337 995	568 732	480 924
Unfinished goods (round timber in forest and in mill)	1 005 523	2 326 223	1 430 730	3 309 917
Timber in production	242 892	517 420	345 604	736 222
Total unfinished goods:	1 248 415	2 843 643	1 776 335	4 046 139
Ready sawn materials products	566 134	107 645	805 536	153 165
Goods in retail trade shop	0	35 333	0	50 274
Total ready products and goods for sale	566 134	142 978	805 536	203 439
Advance payments for goods	17 153	160 055	24 407	227 738

No non-marketable stock was recorded as per inventory performed at 31.12.2011.

18. Trade receivables

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Accounting value of trade receivables	373 637	515 223	531 638	733 096
Doubtful debt reserve (-)	146 101	143 486	207 883	204 162
Accounting value	227 536	371 737	323 754	528 934
Debts of associated companies	240 056	42 524	341 569	60 506
Spread by currencies:				
LVL	126 055	12 499		
EUR	159 791	30 025		
RUB	100 000	0		

Balance of outstanding debts are reflected in the balance sheet for their net value. In 2010 bad debt provisions have been written off for amount of 21 883 LVL (31 137 EUR), which have been declared as insolvent or wound up. Bad debt provisions have been created on grounds of assessment of financial status and operational activities of clients considering repayment of debts according to agreements signed and potential for recovery of debt. Reserves are made for debtors which for duration of 2 years do not reply to verification notes and cannot be found at given addresses, which have not made any payments within a year, as well as debtors regarding which insolvency procedure has been started.

19. Other debtors

	2011	2010	2011	2010
--	------	------	------	------

	LVL	LVL	EUR	EUR
Surplus VAT payment	13007	21207	18507	30175
VAT paid in advance on boarder	441	470	627	669
Advance payment to the UIN	25116	115845	35737	164833
Guarantee payments made	2978	2620	4237	3728
Loans to employees	1752	1752	2493	2493
Other debtors	25750	0	36639	0
In total other debtors	69044	141894	98241	201897

20. Expenditures of the next periods

	2011	2010	2011	2010
	LVL	LVL	EUR	EUR
Insurance	9 391	22 398	13 362	31 869
Licence fees	526	457	748	650
Other	23 322	14655	33 184	20 852
In total expenditure of the next periods	33 239	37 510	47 295	53 372

21. Money and its equivalents

	2011	2010	2011	2010
	LVL	LVL	EUR	EUR
Termiņnoguldījumi*				0
Money in accounts	4 531	8 466	6 447	12 046
Money in cash	0	70	0	100
Money total	4 531	8 536	6 447	12 146

	2011		2010	
Currency groups	Currency	LVL	Currency	LVL
LVL	2 347	2 347	2 365	2 365
EUR	3 107	2 184	8 781	6 171

22. Share capital, reserves and profit per share

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

	%	2011 LVL	2011 EUR
Shares of closed issue			
LTD SEZ Laskana	26,00	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	26,99	104 489	148 674
Physical persons of the Republic of Latvia	2,99	11 577	16 473
SIA JL Lindex	15,99	61 915	88 097
Shares of public offering *	28,03	108 500	154 382
Total:	100	387 136	550 845
2010.12.31		387 136	550 845
2011.12.31		387 136	550 845

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

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account which makes 534 956 Ls is divided with the weighted-average number of shares in circulation in the period of account which is 387 136.

A nominal value of each share is 1 Latvian lat.

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

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Profit of the period of account	534 956	-162 745	761 174	-231 565
Number of shares 31.12.2011	387 136	387 136	550 845	550 845
Basic profit per share per year	1,38	-0,42	1,97	-0,60

23. Loans from credit institutions

	% rate in force	The repayment term	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Long-term						
A/s Nordea banka creditline	The Base rate EONIA +	30.11.2016	2 099 615	0	2 987 483	0
A/s Nordea banka creditline	The Base rate EONIA +	30.11.2016	1 056 671	0	1 503 507	0
A/s Nordea banka	3 mon.Euribor + %	28.02.2018	453 718	539 460	645 583	767 583
A/s Nordea banka	3 mon.Euribor + %	04.03.2018	236 222	280 850	336 114	399 614
			3 846 226	820 310	5 472 687	1 167 197

Short-term:						
A/s Nordea banka creditline	The Base rate EONIA +	līdz 12 mēn.	0	2 112 820	0	3 006 273
A/s Nordea banka	3 mon.Euribor + %	līdz 12 mēn.	85 742	85 742	122 000	122 000
A/s Nordea banka	3 mon.Euribor + %	līdz 12 mēn.	44 628	44 628	63 500	63 500
			130 370	2 243 190	185 500	3 191 772
Pavisam			3 976 596	3 063 501	5 658 186	4 358 969

As the collateral for the claims raised due to the loan agreement signed the Company has mortgaged real estate.

24.Liabilities of financial lease and other loans

% rate in force		2011	2010	2011	2010
		LVL	LVL	EUR	EUR
Long-term:					
SIA Swedbank līzings	3 mon. Euribor+%	6 224	77 145	8 855	109 767
SIA Nordea līzings	Fixed rate	1 191	6 906	1 695	9 826
		7 415	84 051	10 550	119 594
Short-term:					
SIA Swedbank līzings	3 mon. Euribor+%	70 922	127 423	100 913	181 307
SIA Nordea līzings	Fixed rate	5 715	10 776	8 131	15 333
Willenbrock Baltic UAB		54 150	0	77 048	0
		130 786	138 199	186 092	196 639
Total		138 201	222 250	196 642	316 233

Loan agreement liabilities refer to loan agreements of four motor vehicles starting from 2007, with final payment period at April 1, 2013. Accounting value of cars used in financial lease is set at 49 814 LVL. Lease agreement liabilities refer to six contracts for lease of timber and forestry equipment starting from 2006, with the maturity date at February 28, 2013. Accounting value of equipment used in the finance lease is 227 900 LVL.

25. Debts to suppliers and contractors

	2011	2010	2011	2010
	LVL	LVL	EUR	EUR
Debts to suppliers and contractors	4 408 474	3 459 618	6 272 693	4 922 593

26. Taxes payable

	31.12.2010	Paid in 2011	Calculated in 2011	Fine	Taxes recognized as other taxes	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL
Company Income Tax(Adjustment)	115845	14286			-105015	25116
VAT	21204		81774		-89972	13006
VAT on the boarder	470				-29	441
Peoples Income Tax	-63632	212916	-275004	-4162	60800	-69082
Compulsory Payments of Social Insurance Tax	-29753	286278	-456747	-321	134216	-66327
Natural Resources Tax	-95	100	-441	-2		-438
Property Tax	0	11886	-13662	-85		-1861
Risk due	-16	541	-565	-1		-41
Total	44023	526007	-664645	-4571	0	-99186
Debt on taxes	-93496					-137749
Overpayd taxes	137519					38563

	31.12.2010	Paid in 2011	Calculated in 2011	Fine	Taxes recognized as other taxes	31.12.2011
	EUR	EUR	EUR	EUR	EUR	EUR
Company Income Tax(Adjustment)	164833	20327	0	0	-149423	35737
VAT	30171	0	116354	0	-128019	18506
VAT on the boarder	669	0	0	0	-41	627
Peoples Income Tax	-90540	302952	-391295	-5922	86511	-98295
Compulsory Payments of Social Insurance Tax	-42335	407337	-649892	-457	190972	-94375
Natural Resources Tax	-135	142	-627	-3	0	-623
Property Tax	0	16912	-19439	-121	0	-2648
Risk due	-23	770	-804	-1	0	-58
Total	62639	748441	-945705	-6504	0	-141129
Debt on taxes	-133033	0	0	0	0	-195999
Overpayd taxes	195672	0	0	0	0	54870

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

27. Other liabilities

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Salary payments	61 695	56 837	87 784	80 872
Contributions to private pension funds	2 138	2 138	3 042	3 042
Payments for deductions from wages	806	490	1 147	697
Advance payments to employees	3	0	4	0
Other creditors	925 358	0	1 316 666	0
	990 000	59 465	1 408 643	84 611

Loans from other creditors have been secured by mortgage on real estate, in total cadastral value 147 000 LVL.

28. Accrued for holidays

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Accrued for holidays	86 967	119 527	123 743	170 072
	86 967	119 527	123 743	170 072

29. Accrued liabilities

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Payables to suppliers	43 393	17 041	61 743	24 247
	43 393	17 041	61 743	24 247

30. Incomes from the next periods.

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Long-term:				
Project No. 124000041	23 440	34 693	33 352	49 364
Project No..04/415034/0002/023	9 966	14 954	14 180	21 278
Project No.L-APV-10-0015	731 155	490 746	1 040 340	698 269
	764 561	540 393	1 087 872	768 910
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No..04/415034/0002/023	4 988	4 988	7 097	7 097
Project No.L-APV-10-0015	165 759	0	235 854	0
Other income	44		63	
	182 044	16 241	259 025	23 109

31. Personnel costs

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Average number of employees	172	142		
Total personnel costs				
Wages	1 243 708	1 094 192	1 769 637	1 556 895
Social tax	297 496	262 354	423 299	373 296
Unemployment risk due	540	443	768	630
	1 541 744	1 356 989	2 193 704	1 930 821
including:				
wages of production workers				
wages	1 176 997	1 028 904	1 674 716	1 463 998
social tax	281 904	246 627	401 113	350 919
unemployment risk due	514	420	731	598
	1 459 415	1 275 951	2 076 560	1 815 515
administration wages				
wages	53 691	65 288	76 396	92 896
social tax	12 935	15 727	18 404	22 378
Unemployment risk due	23	23	33	33
	66 649	81 038	94 833	115 307
incl. remuneration to company management - board				
wages	13 020	15 650	18 526	22 268
Social tax	2 657	3 767	3 781	5 360
Unemployment risk due	3	3	4	4
	15 680	19 420	22 311	27 632

32. Transactions with associated persons

Subsidiary	Type of transaction		Income from subsidiaries		Payments to subsidiaries		Debts to subsidiaries		Credits to subsidiaries	
			LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
OOO Saldus	debt and sales of ready production	2010	0	0	15 800	22 481	124 286	176 843	0	0
		2011	272	387	0	0	124 558	177 230	0	0
OOO DOK Nr.3	debt and sales of ready production	2010	0	0	95 226	135 494	706 621	1 005 431	0	0
		2011	18 854	26 827	102 087	145 257	827 562	1 177 515	0	0
SIA Pakuļu sporta bāze	debt and sales of ready production	2010	290	413	15 058	21 426	124 881	177 690	0	0
		2011	6 624	9 425	14 623	20 807	139 504	198 496	0	0
SIA SEZ	debt and sales of	2010	0	0	0	0	0	0	0	0

Single registration number: 4000000012										
Laskana	ready production	2011	5 174	7 362	0	0	384	546	0	0
SIA Saldus MRU	debt and sales of ready production	2010	66 298	94 334	0	0	1 428	2 032	126 406	179 860
		2011	73 739	104 921	286 714	407 957	9 992	14 217	6 030	8 580
		2010	66 588	94 746	126 084	179 401	957 216	1 361 996	126 406	179 860
		2011	104 663	148 922	403 424	574 021	1 102 000	1 568 005	6 030	8 580

33. Expenditures due to the environment protection

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

34. Financial instruments

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

Financial risks

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

Credit risk

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

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

Foreign currency risk

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

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

Interest risk

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

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

Liquidity risk

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

Real value

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

33. Events after the year of account

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

SIA "Zvērinātas revidentes S. Koļesņikovas birojs"

Vienotais reģistrācijas Nr. 40002024395

Zvērinātu revidentu komercsabiedrības licence Nr.127

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Saldus mežrūpniecība

Report on the Financial Statements

We have audited the accompanying financial statements of AS Saldus mežrūpniecība set out on pages 6 to 29 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011 and the profit and loss account and the statements of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Saldus mežrūpniecība as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2011 set out on page 4 of the accompanying annual report for 2011 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2011.

Zvērinātas revidentes S.Koļesņikovas birojs SIA

Audit company licence No. 127

Svetlana Koļesņikova

Certified auditor

Certificate No. 22

Member of the Board



Rīga,

30 April 2012