

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF THE YEAR 2011

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

Saldus, 2011

CONTENT

Information about the Company	3
Management announcement	4
Statement of Management Responsibility	5
Profit or loss calculation	6
Balance sheet	7
Balance sheet (continuation)	8
Cash flow statement	9
Statement on the changes in own capital	10
Annex to the financial statement	10

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, Rīga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Merkalns (<i>Jānis Mierkalns</i>) – member of the Board Gundars Maurs (<i>Gundars Maurs</i>) – member of the Board Gatis Zommers (<i>Gatis Zommers</i>) – member of the Board
Members of the Council: name, surname, position	Uldis Melkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Maris Elleris (<i>Māris Elleris</i>) – member of the Council Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council Ainis Dabols (<i>Ainis Dābols</i>) – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – March 31, 2011
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – March 31, 2011
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – March 31, 2011

Management announcement

To Report of economic activity for the of 3 months of year 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.

From the mid-year of 2009, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

Profit of A/s „Saldus mežrūpniecība” for the of 3 months of year 2011 are 122 425 LVL at the net turnover of 6 401 937 LVL, which means profit on one share issued of 0.32 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.

Important events after the end of year of account

From the end of period of account until the moment of approval of the report, there were no significant events that could make impact on the financial position of the holding that was fixed in the finance report.

Forecasts for financial statments and operational plans of 2011

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.

Due to political events in the Near East at the moment demand for sawn timber in the region has decreased, which was the target supply region of the company.

Production and sale volumes in forestry in 2011 are planned to reach 350 000m³ per year. The planned volume of sawn timber products production and sale is 200 000 m³ per year.

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.

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 economical 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

May 31.2011

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 March 2011, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant Latvian 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

Piezīme	31.03.2011 LVL	31.03.2010 LVL	31.03.2011 EUR	31.03.2010 EUR
Net turnover	6 401 937	3 321 854	9 109 136	4 726 572
Production costs of the sold production	(5 899 283)	(2 433 329)	(8 393 923)	(3 462 315)
Gross profit	502 654	888 525	715 212	1 264 257
Selling costs	(355 396)	(770 777)	(505 683)	(1 096 717)
General administration costs	(30 968)	(30 195)	(44 063)	(42 964)
Other income from company's economic activity	130 918	85 281	186 280	121 344
Other expenditures from company's economic activity	(92 841)	(67 464)	(132 101)	(95 993)
Profit or loss from economic activity	154 367	105 370	219 644	149 928
Other interest income and the like income	-	-	-	-
Other interest payments and the like payments	(27 906)	(39 552)	(39 707)	(56 277)
Profit or loss before extraordinary items and taxes	126 461	65 818	179 938	93 651
Extraordinary income	-	-	-	-
Extraordinary expenditures	-	-	-	-
Profit or loss before taxes	126 461	65 818	179 938	93 651
Company's income tax	-	-	-	-
Company's deferred income tax	-	-	-	-
Other taxes	(4 036)	(409)	(5 743)	(582)
Profit or (loss)	122 425	65 409	174 195	93 069
Profit/ (loss) per share				
<i>lats per share / EUR per share</i>	0.32	0.17	0.45	0.24

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns valdes priekšsēdētājs	Jānis Mierkalns valdes loceklis	Gundars Maurs valdes loceklis	Gatis Zommers valdes loceklis
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Balance sheet

	Note	31.03.2011. LVL	31.12.2010. LVL	31.03.2011. EUR	31.12.2010. EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like items		15 941	17 837	22 682	25 380
Company's intangible value		-	-	-	-
Advance payments for intangible investments					
TOTAL		15 941	17 837	22 682	25 380
Fixed assets					
Land, premises and buildings		2 752 779	2 781 578	3 916 852	3 957 829
Equipment and machinery		1 022 865	1 140 975	1 455 406	1 623 461
Other fixed assets		19 336	18 205	27 513	25 903
Unfinished constructions		939 374	836 041	1 336 609	1 189 579
Advance payments for fixed assets		2 338 894	1 405 810	3 327 946	2 000 287
TOTAL		7 073 248	6 182 609	10 064 325	8 797 060
Biological assets		636 134	636 134	905 137	905 137
Long-term financial investments					
Participation in the capital of related companies		415 142	415 142	590 694	590 694
Loans to the related companies		735 094	731 541	1 045 945	1 040 889
TOTAL		1 150 236	1 146 683	1 636 638	1 631 583
TOTAL LONG-TERM INVESTMENTS		8 875 559	7 983 263	12 628 783	11 359 160
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		77 780	39 313	110 671	55 937
Biological assets		337 995	337 995	480 924	480 924
Unfinished production		2 400 749	2 843 643	3 415 958	4 046 139
Finished production and goods for sale		401 768	142 978	571 664	203 439
Advance payments for goods		176 634	160 055	251 328	227 738
TOATL		3 394 926	3 523 984	4 830 545	5 014 177
Noncurrent assets held for sale					
Fixed assets held for sale		210 197	210 197	299 083	299 083
Debtors					
Debts of buyers and customers		147 943	371 737	210 504	528 934
Debts of subsidiaries		42 524	42 524	60 506	60 506
Other debtors		136 478	141 894	194 191	201 897
Expenditures of the next periods		67 642	37 510	96 246	53 372
TOTAL		394 587	593 665	561 447	844 709
Money and its equivalents		10 892	8 536	15 498	12 146
TOTAL CURRENT ASSETS		4 010 602	4 336 382	5 706 573	6 170 116
TOTAL ASSETS		12 886 161	12 319 645	18 335 355	17 529 276

The annex is an integral part of this financial statement.

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valdes priekšsēdētājs

Jānis Mierkalns
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Balance sheet (continuation)

Shareholders'equity and liabilities

Note	31.03.2011. LVL	31.12.2010. LVL	31.03.2011. EUR	31.12.2010. 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
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 account	122 425	(162 745)	174 195	(231 565)
TOTAL	3 836 329	3 713 904	5 458 604	5 284 409
Total shareholders'equity	3 836 329	3 713 904	5 458 604	5 284 409
Liabilities				
Long-term liabilities				
Deferred company's income tax	88 848	88 848	126 419	126 419
Long-term loans from credit institutions	787 718	820 310	1 120 822	1 167 196
Long-term part of financial lease liabilities	57 112	84 051	81 263	119 594
Other creditors	925 359	925 359	1 316 667	1 316 667
Long-term part of incomes from next periods	540 393	540 393	768 910	768 910
TOTAL	2 399 430	2 458 961	3 414 081	3 498 786
Short-term liabilities				
Short-term loans from credit institutions	2 238 453	2 243 190	3 185 032	3 191 772
Short-term part of financial lease	124 985	138 199	177 838	196 639
Advance payments received from buyers	-	-	-	-
Debts to suppliers and contractors	3 834 818	3 459 618	5 456 454	4 922 593
Liabilities provisions	8 565	17 041	12 187	24 247
Accured liabilities	119 527	119 527	170 072	170 072
Taxes payable	230 128	93 499	327 443	133 037
Other creditors	77 685	59 465	110 536	84 611
Incomes from the next periods short-term part	16 241	16 241	23 109	23 109
Unpaid dividends from the previous years	-	-	-	-
TOTAL	6 650 402	6 146 780	9 462 670	8 746 080
Total liabilities	9 049 832	8 605 741	12 876 751	12 244 866
Total shareholders'equity and liabilities	12 886 161	12 319 645	18 335 355	17 529 276

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Cash flow statement

Cash flow from basic activity		31.03.2011.	31.03.2010.	31.03.2011.	31.03.2010.
		LVL	LVL	EUR	EUR
Profit (+) or loss (-) before extraordinary items and taxes:		126 461	65 818	179 938	93 651
	wear and tear of fixed assets and intangible investments (+)	151 235	140 332	215 188	199 674
	elimination of fixed assets and intangible investments	-	-	-	-
	formation of accruals (except for the accruals for insecure debts)	-	-	-	-
	profit (-) or loss (+) from fluctuations of exchange rate	-	2	-	3
	income from the acknowledgement of financing	-	-	-	-
	revaluation of long-term investments	-	-	-	-
	revaluation of biological assets	-	-	-	-
	interest payments and the like expenditures	27 906	39 552	39 707	56 277
Profit or loss before the corrections of the impact of balance		305 602	245 704	434 832	349 605
	increase (+) or decrease (-) of debtors debt	199 079	(215 054)	283 264	(305 994)
	increase (+) or decrease (-) of the reserves of accruals	129 058	(687 805)	183 633	(978 658)
	increase (+) or decrease (-) of the remainder of debts payable to	521 572	1 528 520	742 130	2 174 888
Gross cash flow from basic activity		1 155 311	871 365	1 643 859	1 239 841
Expenditures to pay interest payments		(27 906)	(39 552)	(39 707)	(56 277)
Expenditures to pay company's income tax and immovable property tax		(4 036)	(409)	(5 743)	(582)
Cash flow before extraordinary items		1 123 369	831 404	1 598 410	1 182 981
Net cash flow from basic activity		1 123 369	831 404	3 260 440	1 659 784
Cash flow from investments					
Loans repayments		-	-	-	-
Acquisition of fixed assets and intangible investments		(3 553)	(26 822)	(5 055)	(38 164)
Expenditures for advance payments for fixed assets and unfinished		(3 561)	(2 510)	(5 067)	(3 571)
Income from selling fixed assets and intangible investments		(1 036 417)	(702 454)	(1 474 689)	(999 502)
Interest received		-	-	-	-
Net cash flow from investments		(1 043 531)	(731 786)	(1 484 811)	(1 041 238)
Cash flow from financing activities					
Loans repayments credit institutions		(77 482)	(115 528)	(110 247)	(164 382)
EU financing received		-	-	-	-
Received investments in capital		-	-	-	-
Expenditures for paying back loans		-	-	-	-
Expenditures for redemption of asset that was hired		-	-	-	-
Paid out dividends		-	-	-	-
Net cash flow from financing activities		(77 482)	(115 528)	(110 247)	(164 382)
The result of the exchange rate fluctuations		-	-	-	-
Net cash flow of the year of account increase (+), decrease (-)		2 356	(15 910)	3 352	(655 389)
Money and its equivalents balance at the beginning of the year of account		8 536	17 598	12 146	25 040
Money and its equivalents balance at the end of the year of account		10 892	1 688	15 498	2 402

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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
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	-	-	-	-	90 074	(90 074)	-
Revaluation reserves	-	-	-	-	-	-	-
Paid out dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(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 the year 2010 profit	-	-	-	-	(162 745)	162 745	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	122 425	122 425
March 31, 2011	387 136	1 987	802 492	2 623 085	(100 796)	122 425	3 836 329

	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 the year 2008 profit	-	-	-	-	128 164	(128 164)	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(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 the year 2010 profit	-	-	-	-	(231 565)	231 565	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	174 195	174 195
March 31, 2011	550 845	2 827	1 141 843	3 732 314	(143 420)	174 195	5 458 604

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Annex to the financial statement

1. Corporate 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 and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance 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 March 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:.

	31.03.2011	31.12.2010
	LVL	LVL
1 RUB	0.01733	0.01760
1 EUR	0,702804	0,702804

Intangible investment

Intangible assets include software licences used in the company, intangible value and other intangible assets concerned with operations of the Group Holding company or Group subsidiary.

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 strighty line method. Costs associated with maintenance of software are accounted as costs in the income statement. See Paragraph 12 of the Annex.

2. Summary of significant accounting policies (continuation)

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	-20 years (starting from 01.01.2008.)
Equipment and machinery	- 10 years
Forestry equipment	- 5 years (starting from 01.01.2007.)
Timber processing lines	- 5 years (starting from 01.01.2007.)
Other property, plant and equipment	- 5 years
Data processing and storage equipment, software	- 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 2010 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 2010 and that is LVL 16.72 per m3. 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

2. Summary of significant accounting policies (cont'd)

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.

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:

2. Summary of significant accounting policies (cont'd)

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 21.

Accruals and deferred liabilities

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

2. Summary of significant accounting policies (cont'd)

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	
	31.03.2011.	31.03.2010.	31.03.2010.	31.03.2010.	31.03.2011.	31.03.2010.	31.03.2011.	31.03.2010.
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	9 180 503	5 026 631	10 375 043	4 052 320	90 952	94 259	19 646 498	9 173 210
Production costs of sold products	(7 839 875)	(4 075 513)	(10 425 538)	(3 630 152)	(296 133)	(354 115)	(18 561 546)	(8 059 780)
Selling costs	(763 257)	(806 240)	(14 949)	(29 623)	(39 839)	(134)	(818 045)	(835 997)
General administration costs	(4 336)	(20 944)	(4 958)	(1 928)	(183 604)	(135 657)	(192 898)	(158 529)
Other incomes/expenditures from economic activity	115 635	42 546	87 357	44 035	(284 609)	21 282	(81 617)	107 863
Segment profit	688 670	166 480	16 955	434 652	(713 233)	(374 365)	(7 608)	226 767
Financial expenditures, net	(48 475)	(75 549)	(13 639)	(3 355)	(95 295)	(127 849)	(157 409)	(206 753)
Company income tax (undistributable)					15 490	82 205	15 490	82 205
Other taxes	-	(611)	(4 476)	(3 102)	(8 742)	(8 432)	(13 218)	(12 145)
Net result	640 195	90 320	(1 160)	428 195	(801 780)	(428 441)	(162 745)	90 074
Segment assets	5 635 006	5 629 728	6 002 506	2 237 383	612 500	2 639 471	12 250 012	10 506 582
Segment liabilities	4 900 005	4 585 397	5 512 505	1 688 779	1 837 502	4 232 406	12 250 012	10 506 582

	logging		timber processing		Other and undistributable		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	13 062 679	7 152 252	14 762 356	5 765 932	129 413	134 118	27 954 448	13 052 302
Production costs of sold products	(11 155 137)	(5 798 933)	(14 834 204)	(5 165 241)	(421 359)	(503 860)	(26 410 701)	(11 468 034)
Selling costs	(1 086 017)	(1 147 176)	(21 271)	(42 150)	(56 686)	(191)	(1 163 973)	(1 189 517)
General administration costs	(6 170)	(29 801)	(7 055)	(2 743)	(261 245)	(193 023)	(274 469)	(225 566)
Other incomes/expenditures from economic activity	164 534	60 538	124 298	62 656	(404 962)	30 282	(116 131)	153 475
Segment profit	979 889	236 880	24 125	618 454	(1 014 839)	(532 673)	(10 825)	322 660
Financial expenditures, net	(68 974)	(107 497)	(19 407)	(4 774)	(135 593)	(181 913)	(223 973)	(294 183)
Company income tax	-	-	-	-	22 040	116 967	22 040	116 967
Other taxes	-	(869)	(6 369)	(4 414)	(12 439)	(11 998)	(18 808)	(17 281)
Net result	910 915	128 514	(1 651)	609 267	(1 140 830)	(609 617)	(231 565)	128 164
Segment assets	8 017 891	8 010 381	8 540 797	3 183 509	871 509	3 755 629	17 430 197	14 949 519
Segment liabilities	6 972 079	6 524 432	7 843 588	2 402 916	2 614 530	6 022 171	17 430 197	14 949 519

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.

	31.03.2011. LVL	31.03.2010. LVL	31.03.2011. EUR	31.03.2010. EUR
Income from sales, int. Al.	18 763 744	8 819 924	26 698 402	12 549 621
Latvia	18 763 744	8 819 058	26 698 402	12 548 389
the EU countries		866	0	1 232
Other countries			1 256 046	0
Income from rendering of services, int. Al.	882 754	353 286	1 256 046	502 681
Latvia	882 754	353 286	1 256 046	502 681
Other countries			0	
	19 646 498	9 173 210	27 954 448	13 052 302