

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

**(SINGLE REGISTRATION NUMBER 40003020121)**

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

**DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**Saldus, 2011**

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Address: Mežvidi, Novadnieki Parish., LV-3801,  
Saldus District., Republic of Latvia  
Single registration number: 40003020121

## Information about the Company

Name of the Company	<b>Saldus Timber Wood Industry (Saldus mežrūpniecība)</b>
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns ( <i>Jānis Bertrāns</i> ) – Chancellor of the Board Janis Merkals ( <i>Jānis Mierkalns</i> ) – member of the Board Gundars Maurs ( <i>Gundars Maurs</i> ) – member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) – member of the Board
Members of the Council: name, surname, position	Uldis Melrkals ( <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> )
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 – March 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 – March 31, 2011
Name and address of the Auditor	(Translated from Latvian) Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.127

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## Management announcement

### *To Consolidated 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 2010, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

The consolidated profit of the holding JSC „Saldus mežrūpniecība” from the of 3 months of year 2011 from economic activities profits is 108 053 LVL, whereby Net turnover is 6 402 840 LVL, which comprise profits per emitted share 0,28 LVL.

The consolidated companies 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 and of its consolidation group. 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 consolidated report, there were no significant events that could make impact on the financial position of the holding that was fixed in the consolidated finance report.

#### **Forecasts for financial indicators and plans for economic activities in 2011**

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

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 350 000 m<sup>3</sup> per year. The planned volume of sawn timber products production and sale is 200 000 m<sup>3</sup> 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

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Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

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## **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 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.

**Consolidated income statement**

	Note	31.03.2011. LVL	31.03.2010. LVL	31.03.2011. EUR	31.03.2010. EUR
Net turnover		6 402 840	3 323 700	9 110 421	4 729 199
Production costs of the sold production		(5 899 428)	(2 433 860)	(8 394 130)	(3 463 071)
<b>Gross profit</b>		<b>503 412</b>	<b>889 840</b>	<b>716 291</b>	<b>1 266 128</b>
Selling costs		(359 351)	(779 938)	(511 310)	(1 109 752)
General administration costs		(40 153)	(39 699)	(57 133)	(56 487)
Other income from company's economic activity		130 918	184 671	186 280	262 763
Other expenditures from company's economic activity		(92 841)	(166 063)	(132 101)	(236 286)
<b>Profit or loss from economic activity</b>		<b>141 985</b>	<b>88 811</b>	<b>202 026</b>	<b>126 367</b>
Other interest payments and the like payments		(27 159)	7 189	(38 644)	10 229
<b>Profit or loss before extraordinary items and taxes</b>		<b>114 826</b>	<b>96 000</b>	<b>163 383</b>	<b>136 596</b>
<b>Profit or loss before taxes</b>		<b>114 826</b>	<b>96 000</b>	<b>163 383</b>	<b>136 596</b>
Company's deferred income tax		-	-	-	-
Other taxes		(6 773)	(3 705)	(9 637)	(5 272)
<b>Profit or (loss)</b>		<b>108 053</b>	<b>92 295</b>	<b>153 746</b>	<b>131 324</b>
Other incomes (in the review year) that are not shown in the profit and loss account.		-	-	-	-
<b>Profit/ (loss) per share</b>		<b>108 053</b>	<b>92 295</b>	<b>153 746</b>	<b>131 324</b>
<b>LVL per share / EUR per share</b>		<b>0.28</b>	<b>0.24</b>	<b>0.40</b>	<b>0.34</b>

The annex is an integral part of this financial statement

Board :

Jānis Bertrāns  
Chairman of board

Janis Mierkalns  
Vice-chairman

Gundars Maurs  
Member of board

Gatis Zommers  
Member of board

**Consolidated balance sheet**

<b>ASSETS</b>	Note	31.03.2011. LVL	31.12.2010 LVL	31.03.2011. EUR	31.12.2010 EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like		30 711	34 202	43 698	48 665
Company's intangible value		22 834	22 834	32 490	32 490
Advance payments for intangible investments		-	-	-	-
<b>TOTAL</b>		<b>53 545</b>	<b>57 036</b>	<b>76 188</b>	<b>81 155</b>
<b>Fixed assets</b>					
Land, premises and buildings		2 806 144	2 835 210	3 992 783	4 034 140
Equipment and machinery		1 112 331	1 236 146	1 582 704	1 758 877
Other fixed assets		19 519	18 468	27 773	26 278
Unfinished constructions		1 555 870	1 458 255	2 213 804	2 074 910
Advance payments for fixed assets		2 338 894	1 405 810	3 327 946	2 000 287
<b>TOTAL</b>		<b>7 832 758</b>	<b>6 953 889</b>	<b>11 145 011</b>	<b>9 894 493</b>
<b>Biological assets</b>		<b>636 134</b>	<b>636 134</b>	<b>905 137</b>	<b>905 137</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>8 522 437</b>	<b>7 647 059</b>	<b>12 126 335</b>	<b>10 880 785</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		280 532	245 536	399 161	349 366
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		450 259	191 209	640 661	272 066
Advance payments for goods		98 640	123 085	140 352	175 134
<b>TOATL</b>		<b>3 568 175</b>	<b>3 741 468</b>	<b>5 077 056</b>	<b>5 323 629</b>
<b>Noncurrent assets held for sale</b>					
Fixed assets held for sale		210 197	210 197	299 083	299 083
<b>Debtors</b>					
Debts of buyers and customers		55 577	279 591	79 079	397 822
Accured income		1 205	1 224	1 715	1 742
Other debtors		227 340	230 048	323 476	327 329
Expenditures of the next periods		335 880	304 093	477 914	432 685
<b>TOTAL</b>		<b>620 002</b>	<b>814 956</b>	<b>882 183</b>	<b>1 159 578</b>
<b>Money and its equivalents</b>		<b>68 588</b>	<b>98 445</b>	<b>97 592</b>	<b>140 075</b>
<b>TOTAL CURRENT ASSETS</b>		<b>4 466 962</b>	<b>4 865 067</b>	<b>6 355 914</b>	<b>6 922 365</b>
<b>TOTAL ASSETS</b>		<b>12 989 399</b>	<b>12 512 126</b>	<b>18 482 250</b>	<b>17 803 150</b>

The annex is an integral part of this financial statement

Board:

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

## Consolidate balance sheet (continuation)

Shareholders'equity and liabilities	Note	31.03.2011. LVL	31.12.2010. LVL	31.03.2011. EUR	31.12.2010. EUR
<b>Shareholders'equity</b>					
Share capital		387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	802 492	1 141 843	1 141 843
Adjustment reserve of foreign currency		(55 505)	(48 558)	(78 976)	(69 092)
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		(370 679)	(133 607)	(527 429)	(190 106)
Retained earnings from the year of account		108 053	(237 843)	153 746	(338 420)
<b>TOTAL</b>		<b>3 496 569</b>	<b>3 394 692</b>	<b>4 975 169</b>	<b>4 830 212</b>
<b>Total shareholders'equity</b>		<b>3 496 569</b>	<b>3 394 692</b>	<b>4 975 169</b>	<b>4 830 212</b>
<b>Liabilities</b>					
<b>Long-term liabilities</b>					
Deferred company's income tax		88 848	88 848	126 419	126 419
Long-term loans from credit institutions		1 094 312	1 147 488	1 557 066	1 632 728
Long-term part of financial lease liabilities		57 112	84 051	81 263	119 594
Other creditors		947 269	947 269	1 347 842	1 347 842
Long-term part of incomes from next periods		540 393	540 393	768 910	768 910
<b>TOTAL</b>		<b>2 727 934</b>	<b>2 808 049</b>	<b>3 881 500</b>	<b>3 995 494</b>
<b>Short-term liabilities</b>					
Short-term loans from credit institutions		2 251 087	2 255 824	3 203 008	3 209 748
Short-term part of financial lease		124 985	138 199	177 838	196 639
Advance payments received from buyers		75 876	115 125	107 962	163 808
Debts to suppliers and contractors		3 848 639	3 482 658	5 476 120	4 955 376
Provisions liabilities		8 565	17 041	12 187	24 247
Accured liabilities		119 527	119 527	170 072	170 072
Taxes payable		233 917	96 467	332 834	137 260
Other creditors		86 059	68 302	122 451	97 185
Incomes from the next periods short-term part		16 241	16 241	23 109	23 109
Unpaid dividends from the previous years				-	-
<b>TOTAL</b>		<b>6 764 896</b>	<b>6 309 384</b>	<b>9 625 580</b>	<b>8 977 445</b>
<b>Total liabilities</b>		<b>9 492 830</b>	<b>9 117 433</b>	<b>13 507 080</b>	<b>12 972 938</b>
<b>Total shareholders'equity and liabilities</b>		<b>12 989 399</b>	<b>12 512 125</b>	<b>18 482 250</b>	<b>17 803 150</b>

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns  
 Chairman of board

Janis Mierkalns  
 Vice-chairman

Gundars Maurs  
 Member of board

Gatis Zommers  
 Member of board



**Consolidated cash flow statement**

<b>Cash flow from basic activity</b>		<b>31.03.2011.</b>	<b>31.03.2010.</b>	<b>31.03.2011.</b>	<b>31.03.2010.</b>
		LVL	LVL	EUR	EUR
<b>Profit (+) or loss (-) before extraordinary items and taxes:</b>		<b>114 826</b>	<b>96 000</b>	<b>163 383</b>	<b>136 596</b>
Wear and tear of fixed assets and intangible investments (+)		159 447	186 673	226 873	265 612
Elimination of fixed assets and intangible investments		-	(9 467)	-	(13 470)
Reevaluation of long-term investments		-			
Reevaluation of biological assets		-			
Formation of accruals (except for the accruals for insecure debts)		-	-	-	-
Profit (-) or loss (+) from fluctuations of exchange rate		(4 122)	(47 081)	(5 865)	(66 990)
Income from the acknowledgement of financing		-	-	-	-
Costs of currency exchange		-	-	-	-
Interest payments and the like expenditures		33 733	39 893	47 998	56 763
<b>Profit or loss before the corrections of the impact of balance changes</b>		<b>303 884</b>	<b>266 018</b>	<b>432 388</b>	<b>378 510</b>
Increase (+) or decrease (-) of the remainder of debts payable		211 953	(211 829)	301 582	(301 406)
Increase (+) or decrease (-) of the reserves of accruals		129 151	(716 489)	183 765	(1 019 472)
Increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors		505 115	1 549 299	718 714	2 204 454
<b>Gross cash flow from basic activity</b>		<b>1 150 103</b>	<b>886 999</b>	<b>1 636 449</b>	<b>1 262 086</b>
Expenditures to pay interest payments		(33 733)	(39 893)	(47 998)	(56 763)
Expenditures to pay company's income tax and immovable property tax		(6 233)	(3 705)	(8 869)	(5 272)
<b>Net cash flow from basic activity</b>		<b>1 110 137</b>	<b>843 401</b>	<b>1 579 583</b>	<b>1 200 052</b>
<b>Cash flow from investments</b>					
Acquisition of fixed assets and intangible investments		(3 561)	(2 510)	(5 067)	(3 571)
Expenditures for advance payments for fixed assets and unfinished constructions		(1 041 456)	(708 077)	(1 481 858)	(1 007 503)
Income from selling fixed assets and intangible investments		-	16 258	-	23 133
Interest payments and the like expenditures		-	47 083	-	66 993
<b>Net cash flow from investments</b>		<b>(1 045 017)</b>	<b>(647 246)</b>	<b>(1 486 925)</b>	<b>(920 948)</b>
<b>Cash flow from financing activities</b>					
Loans received		(17 426)	-	(24 795)	-
EU financing received		-	-	-	-
Loan repayments to credit institutions		-	11 946	-	16 998
Expenditures for paying back loans		(80 640)	(118 687)	(114 740)	(168 876)
Expenditures for redemption of asset that was hired		-	-	-	-
Paid out dividends		-	-	-	-
<b>Net cash flow from financing activities</b>		<b>(98 066)</b>	<b>(106 741)</b>	<b>(139 535)</b>	<b>(151 879)</b>
<b>The result of the exchange rate fluctuations</b>		<b>3 089</b>	<b>1 290</b>	<b>4 395</b>	<b>1 836</b>
<b>Net cash flow of the year of account increase (+), decrease (-)</b>		<b>(29 857)</b>	<b>90 704</b>	<b>(42 483)</b>	<b>129 060</b>
Money and its equivalents balance at the beginning of the year of account		98 445	20 181	140 075	28 715
Money and its equivalents balance at the end of the year of account		68 588	110 884	97 592	157 774

The annex is an integral part of this financial statement

Board:

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

## Statement on the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from reestimat on fixed assets	Retained earnings/los from the previous year	Retained earnings/los of the year of account	Currency fluctuations due to the reestimation of foreign currency	Toatal own capital
	LVL	LVL	LVL		LVL	LVL	LVL	LVL
<b>December 31, 2009</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(251 432)</b>	<b>123 899</b>	<b>(116 904)</b>	<b>3 570 263</b>
Curency fluctuations due to recalculation					(6 078)		68 346	62 268
Distribution of profit of the year 2009					123 904	(123 899)		5
Disbursed dividends								-
Reserves from reestimati on fixed assets								-
Profit of the year of account						(237 843)		(237 843)
<b>December 31, 2010</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(133 606)</b>	<b>(237 843)</b>	<b>(48 558)</b>	<b>3 394 693</b>
Curency fluctuations due to recalculation					770		(6 947)	(6 177)
Reserves from reestimati on fixed assets	-	-						-
Distribution of the year 2010 profit	-	-			(237 843)	237 843		-
Disbursed dividends	-	-						-
Profit of the year of account	-	-	-			108 053		108 053
<b>March 31, 2011</b>	<b>387 136</b>	<b>1 987</b>	<b>2 623 085</b>	<b>802 492</b>	<b>(370 679)</b>	<b>108 053</b>	<b>(55 505)</b>	<b>3 496 569</b>

	Share capital	Share premium	Other reserves	Reserves from reestimat on fixed assets	Retained earnings/los from the previous year	Retained earnings/los of the year of account	Currency fluctuations due to the reestimation of foreign currency	Toatal own capital
	EUR	EUR	EUR		EUR	EUR	EUR	EUR
<b>December 31, 2009</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(357 756)</b>	<b>176 292</b>	<b>(166 339)</b>	<b>5 080 027</b>
Curency fluctuations due to recalculation	-	-	-		(8 648)	-	97 248	88 599
Distribution of profit of the year 2009	-	-	-	-	176 300	(176 292)	-	7
Disbursed dividends	-	-	-	-	-	-	-	-
Reserves from reestimati on fixed assets	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(338 420)	-	(338 420)
<b>December 31, 2010</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(190 104)</b>	<b>(338 420)</b>	<b>(69 092)</b>	<b>4 830 213</b>
Curency fluctuations due to recalculation	-	-	-	-	1 096	-	(9 885)	(8 789)
Reserves from reestimati on fixed assets	-	-	-	-	-	-	-	-
Distribution of the year 2010 profit	-	-	-	-	(338 420)	338 420	-	-
Disbursed dividends	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	153 746	-	153 746
<b>March 31, 2011</b>	<b>550 845</b>	<b>2 827</b>	<b>3 732 314</b>	<b>1 141 843</b>	<b>(527 429)</b>	<b>153 746</b>	<b>(78 976)</b>	<b>4 975 169</b>

Board:

Jānis Bertrāns  
 Chairman of board

Janis Mierkalns  
 Vice-chairman

Gundars Maurs  
 Member of board

Gatis Zommers  
 Member of board

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## **Annex to the financial statement**

### **1. Corporate information**

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

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2009 consolidated report, hereinafter Holding company.

### **2. Important accounting principles**

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

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

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

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

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

#### ***Consolidation***

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

#### ***Consolidation of foreign subsidiary companies***

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

#### ***Changes in the accounting principles***

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

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

- IAS 1 Presentation of financial statements
- IAS 2 Inventories
- IAS 7 Cash flow statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors
- IAS 10 Events After the Balance Sheet Date
- IAS 14 Segments Reporting
- IAS 16 Property, Plant, and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits

- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs
- IAS 24 Related-Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earning per Share
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities, and Contingent assets
- IAS 38 Intangible assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 41 Agriculture
- IFRS 5 Noncurrent Assets Held for Sales and Discontinued Operations

### ***Use of calculations (continuation)***

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

### ***Transactions in foreign currencies***

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

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

	31.03.2011.	31.12.2010.
RUB/ LVL	0.01733	0.01760
EUR/ LVL	0,702804	0.702804

### ***Intangible investments***

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

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

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

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

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

### ***Capital assets***

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated

Wear and tear is calculated for the time of their effective use, by applying a linear method:

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Buildings, constructions	- 20 years (since 01.01.2008.)
Equipment and machinery	- 10 years
Forest equipment	- 5 years (since 01.01.2007.)
Timber processing lines	- 5 years (since 01.01.2007.)
Other capital assets	- 5 years
Computing and data gathering devices, software	- 5 years

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

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

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

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

### ***Noncurrent assets held for sales***

An entity should classify a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition – subject only to terms that are usual and customary for sales of such assets.

An entity should recognize a gain for any subsequent increase in fair value less costs to sell of an asset but not in excess of the cumulative impairment loss that has been previously recognized.

### ***Biological assets***

In 2008 the company management decided to change accountancy policies for forest stands, complying with IAS 41 Agriculture. According to the new accountancy policy 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 m<sup>3</sup>. 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.

### ***Decrease of the value of assets***

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

### **Loan costs**

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle IAS 23.

### **Lease**

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

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

### **Inventories**

#### *Unfinished products*

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

*Raw materials are accounted in their purchase costs.*

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

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

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

### **Debts of buyers and customers**

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

### **Money and its equivalents**

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

### **Share capital**

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

### **Profit per share**

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

### **Credits and loans**

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

Further loans will be shown in their depreciation value.

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

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### **Accruals**

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

### **Accruals and deferred liabilities**

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

### **Income recognition**

Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:

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

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

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

### **Sale of goods**

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

### **Interest**

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

### **Dividends**

Incomes are recognized when shareholders have rights to receive them.

### **Income from lease**

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

### **Taxes**

#### **Company income tax**

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

#### **Deferred company income tax**

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

### **Possible liabilities and assets**

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

### ***Allowances***

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

### ***Associated persons***

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

### ***Events after the end of the year of account***

After the year of account, in the financial statement are shown the events which give additional information about the Holding's financial situation on the date of drawing up the balance sheet (correcting events). If the events after the end of the year of account are not correcting, they are shown in the notes of the annex to the financial statement only if they are significant.



### 3. Segments of the Holding activities

	logging		timber processing		Other and undistributable		Total	
	31.03.2011.	31.03.2010.	31.03.2011.	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	2 489 291	1 851 377	3 889 729	1 282 670	23 820	189 653	6 402 840	3 323 700
Production costs of sold products	(1 909 107)	(1 194 834)	(3 922 152)	(1 144 362)	(68 169)	(94 664)	(5 899 428)	(2 433 860)
Selling costs	(354 820)	(447 192)	(3 766)	(230 330)	(765)	(102 416)	(359 351)	(779 938)
General administration costs	(1 731)	(1 766)	(10 357)	(9 081)	(28 065)	(28 852)	(40 153)	(39 699)
Other incomes/expenditures from economic activity	30 112	3 491	47 093	41 076	(39 128)	(25 959)	38 077	18 608
<b>Segment profit</b>	<b>253 745</b>	<b>211 076</b>	<b>547</b>	<b>(60 027)</b>	<b>(112 307)</b>	<b>(62 238)</b>	<b>141 985</b>	<b>88 811</b>
Financial expenditures, net	(2 418)	(11 494)	(2 498)	44 432	(22 243)	(25 749)	(27 159)	7 189
Company income tax (undistributable)	-	-	-	-	-	-	-	-
Other taxes	-	(28)	(4 074)	(3 268)	(2 699)	(409)	(6 773)	(3 705)
<b>Net result</b>	<b>251 327</b>	<b>199 554</b>	<b>(6 025)</b>	<b>(18 863)</b>	<b>(137 249)</b>	<b>(88 396)</b>	<b>108 053</b>	<b>92 295</b>
Segment assets	6 664 141	6 370 881	7 356 782	3 002 838	712 414	2 935 240	14 733 337	12 308 959
Segment liabilities	5 786 335	5 214 489	6 771 578	2 455 981	2 175 424	4 638 489	14 733 337	12 308 959

  

	logging		timber processing		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	3 541 942	2 634 272	5 534 586	1 825 075	33 893	269 852	9 110 421	4 729 199
Production costs of sold products	(2 716 415)	(1 700 096)	(5 580 720)	(1 628 280)	(96 996)	(134 695)	(8 394 130)	(3 463 071)
Selling costs	(504 863)	(636 297)	(5 359)	(327 730)	(1 088)	(145 725)	(511 310)	(1 109 752)
General administration costs	(2 463)	(2 513)	(14 737)	(12 921)	(39 933)	(41 053)	(57 133)	(56 487)
Other incomes/expenditures from economic activity	42 846	4 967	67 007	58 446	(55 674)	(36 936)	54 179	26 477
<b>Segment profit</b>	<b>361 047</b>	<b>300 334</b>	<b>778</b>	<b>(85 411)</b>	<b>(159 798)</b>	<b>(88 557)</b>	<b>202 026</b>	<b>126 367</b>
Financial expenditures, net	(3 441)	(16 354)	(3 554)	63 221	(31 649)	(36 638)	(38 644)	10 229
Company income tax	-	-	-	-	-	-	-	-
Other taxes	-	(40)	(5 797)	(4 650)	(3 840)	(582)	(9 637)	(5 272)
<b>Net result</b>	<b>357 606</b>	<b>283 940</b>	<b>(8 573)</b>	<b>(26 840)</b>	<b>(195 288)</b>	<b>(125 776)</b>	<b>153 746</b>	<b>131 324</b>
Segment assets	9 482 218	9 064 947	10 467 758	4 272 654	1 013 674	4 176 470	20 963 650	17 514 071
Segment liabilities	8 233 213	7 419 549	9 635 087	3 494 546	3 095 349	6 599 975	20 963 650	17 514 071

### 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.	6 198 336	3 146 532	8 819 438	4 477 112
Latvia	6 198 336	3 144 686	8 819 438	4 474 485
Russia			0	0
the EU countries			0	0
Income from rendering of services, int. Al.	204 504	177 168	290 983	252 087
Latvia	203 601	175 322	289 698	249 461
Russia	903	1 846	1 285	2 627
	<b>6 402 840</b>	<b>3 323 700</b>	<b>9 110 421</b>	<b>4 729 199</b>

