

# JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

## ANNUAL REPORT FOR THE PERIOD OF 9 MONTHS OF THE YEAR 2011

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

Item	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	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## CONTENT

<b>Information about the Company</b>	<b>3</b>
<b>Management announcement</b>	<b>4</b>
<b>Statement of Management Responsibility</b>	<b>5</b>
<b>Profit or loss calculation</b>	<b>6</b>
<b>Balance sheet</b>	<b>7</b>
<b>Balance sheet (continuation)</b>	<b>8</b>
<b>Cash flow statement</b>	<b>9</b>
<b>Statement on the changes in own capital</b>	<b>10</b>
<b>Annex to the financial statement</b>	<b>11</b>



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## 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 Mierkalns ( <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 Dābols – member of the Council (till 23.09.2011)
Subsidiary enterprise	
1. Name of the company	<b>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</b>
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 – September 30, 2011
2. Name of the company	<b>Woodworking Centre No.3 (Деревообрабатывающий комбинат № 3) (100%)</b>
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 – September 30, 2011
3. Name of the company	<b>Saldus (Салдус) (100%)</b>
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 – September 30, 2011



## Management announcement

### *To Report of economic activity for the of 9 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.

Profit of A/s „Saldus mežrūpniecība” for the of 9 months of year 2011 are 176 298 LVL at the net turnover of 19 222 349 LVL, which means profit on one share issued of 0.46 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 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.

#### 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 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

November 30. 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 30 September 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**

	2011.09.30	2010.09.30	2011.09.30	2010.09.30
Pieņēme	LVL	LVL	EUR	EUR
Net turnover	19 222 349	14 034 429	27 350 939	19 969 193
Production costs of the sold production	(17 886 882)	(12 667 396)	(25 450 740)	(18 024 081)
<b>Gross profit</b>	<b>1 335 467</b>	<b>1 367 033</b>	<b>1 900 198</b>	<b>1 945 113</b>
Selling costs	(1 081 786)	(1 002 655)	(1 539 243)	(1 426 650)
General administration costs	(105 251)	(112 033)	(149 759)	(159 409)
Other income from company's economic activity	478 016	274 460	680 155	390 521
Other expenditures from company's economic activity	(336 268)	(291 216)	(478 466)	(414 363)
<b>Profit or loss from economic activity</b>	<b>290 178</b>	<b>235 589</b>	<b>412 886</b>	<b>335 213</b>
Other interest income and the like income	-	-	-	-
Other interest payments and the like payments	(103 168)	(116 921)	(146 795)	(166 364)
<b>Profit or loss before extraordinary items and taxes</b>	<b>187 010</b>	<b>118 668</b>	<b>266 091</b>	<b>168 849</b>
Extraordinary income	-	-	-	-
Extraordinary expenditures	-	-	-	-
<b>Profit or loss before taxes</b>	<b>187 010</b>	<b>118 668</b>	<b>266 091</b>	<b>168 849</b>
Company's income tax	-	-	-	-
Company's deferred income tax	-	-	-	-
Other taxes	(10 712)	(2 948)	(15 242)	(4 195)
<b>Profit or (loss)</b>	<b>176 298</b>	<b>115 720</b>	<b>250 849</b>	<b>164 655</b>

**Profit/ (loss) per share**

lats per share / EUR per share

0,46      0,30      0,65      0,43

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns  
valdes priekšsēdētājsJānis Mierkalns  
valdes loceklisGundars Maurs  
valdes loceklisGatis Zommers  
valdes loceklis



## Balance sheet

AKTĪVS		2011.09.30	2010.12.31	2011.09.30	2010.12.31
	Note	LVL	LVL	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like items		12 121	17 837	17 247	25 380
Company's intangible value		-	-	-	-
Advance payments for intangible investments					
<b>TOTAL</b>		<b>12 121</b>	<b>17 837</b>	<b>17 247</b>	<b>25 380</b>
<b>Fixed assets</b>					
Land, premises and buildings		2 700 054	2 781 578	3 841 831	3 957 829
Equipment and machinery		2 835 552	1 140 975	4 034 627	1 623 461
Other fixed assets		18 866	18 205	26 844	25 903
Unfinished constructions		1 089 412	836 041	1 550 094	1 189 579
Advance payments for fixed assets		2 729 046	1 405 810	3 883 083	2 000 287
<b>TOTAL</b>		<b>9 372 930</b>	<b>6 182 609</b>	<b>13 336 478</b>	<b>8 797 060</b>
<b>Biological assets</b>		<b>676 205</b>	<b>636 134</b>	<b>962 153</b>	<b>905 137</b>
<b>Long-term financial investments</b>					
Participation in the capital of related companies		415 142	415 142	590 694	590 694
Loans to the related companies		785 679	731 541	1 117 921	1 040 889
<b>TOTAL</b>		<b>1 200 821</b>	<b>1 146 683</b>	<b>1 708 614</b>	<b>1 631 583</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>11 262 077</b>	<b>7 983 263</b>	<b>16 024 492</b>	<b>11 359 160</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		35 094	39 313	49 934	55 937
Biological assets		382 862	337 995	544 764	480 924
Unfinished production		1 037 923	2 843 643	1 476 831	4 046 139
Finished production and goods for sale		490 643	142 978	698 122	203 439
Advance payments for goods		200 100	160 055	284 717	227 738
<b>TOTAL</b>		<b>2 146 622</b>	<b>3 523 984</b>	<b>3 054 368</b>	<b>5 014 177</b>
<b>Noncurrent assets held for sale</b>					
Fixed assets held for sale		213 997	210 197	304 490	299 083
<b>Debtors</b>					
Debts of buyers and customers		194 852	371 737	277 249	528 934
Debts of subsidiaries		52 448	42 524	74 627	60 506
Other debtors		29 810	141 894	42 416	201 897
Expenditures of the next periods		68 869	37 510	97 992	53 372
<b>TOTAL</b>		<b>345 979</b>	<b>593 665</b>	<b>492 284</b>	<b>844 709</b>
<b>Money and its equivalents</b>		<b>10 797</b>	<b>8 536</b>	<b>15 363</b>	<b>12 146</b>
<b>TOTAL CURRENT ASSETS</b>		<b>2 717 395</b>	<b>4 336 382</b>	<b>3 866 505</b>	<b>6 170 116</b>
<b>TOTAL ASSETS</b>		<b>13 979 472</b>	<b>12 319 645</b>	<b>19 890 997</b>	<b>17 529 276</b>

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



**Balance sheet (continuation)**

Shareholders'equity and liabilities	Note	2011.09.30 LVL	2010.12.31 LVL	2011.09.30 EUR	2010.12.31 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
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		176 298	(162 745)	250 849	(231 565)
<b>TOTAL</b>		<b>3 890 202</b>	<b>3 713 904</b>	<b>5 535 259</b>	<b>5 284 409</b>
<b>Total shareholders'equity</b>		<b>3 890 202</b>	<b>3 713 904</b>	<b>5 535 259</b>	<b>5 284 409</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		722 533	820 310	1 028 072	1 167 196
Long-term part of financial lease liabilities		17 823	84 051	25 360	119 594
Other creditors		925 359	925 359	1 316 667	1 316 667
Long-term part of incomes from next periods		489 013	540 393	695 803	768 910
<b>TOTAL</b>		<b>2 243 576</b>	<b>2 458 961</b>	<b>3 192 321</b>	<b>3 498 786</b>
<b>Short-term liabilities</b>					
Short-term loans from credit institutions		3 146 860	2 243 190	4 477 578	3 191 772
Short-term part of financial lease		175 945	138 199	250 347	196 639
Advance payments received from buyers		-	-	-	-
Debts to suppliers and contractors		4 147 750	3 459 618	5 901 717	4 922 593
Liabilities provisions		20 526	17 041	29 206	24 247
Accured liabilities		119 527	119 527	170 072	170 072
Taxes payable		122 621	93 499	174 474	133 037
Other creditors		73 824	59 465	105 042	84 611
Incomes from the next periods short-term part		38 641	16 241	54 981	23 109
Unpaid dividends from the previous years		-	-	-	-
<b>TOTAL</b>		<b>7 845 694</b>	<b>6 146 780</b>	<b>11 163 417</b>	<b>8 746 080</b>
<b>Total liabilities</b>		<b>10 089 270</b>	<b>8 605 741</b>	<b>14 355 738</b>	<b>12 244 866</b>
<b>Total shareholders'equity and liabilities</b>		<b>13 979 472</b>	<b>12 319 645</b>	<b>19 890 997</b>	<b>17 529 276</b>

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns  
valdes priekšsēdētājsJānis Mierkalns  
valdes loceklisGundars Maurs  
valdes loceklisGatis Zommers  
valdes loceklis



**Cash flow statement**

	30.09.2011	31.12.2010	30.09.2011	31.12.2010
	LVL	LVL	EUR	EUR
<b>I. Cash flow from basic activity</b>				
Profit (+) or loss (-) before extraordinary items and taxes:	187 010	-165 017	266 091	-234 798
wear and tear of fixed assets and intangible investments (+)	447414	558 871	636 613	795 202
elimination of fixed assets and intangible investments	-111712	9 103	-158 952	12 952
revaluation of long-term investments		109 184	0	155 355
revaluation of biological assets	-84938	-82 838	-120 856	-117 868
profit (-) or loss (+) from fluctuations of exchange rate	-52	1 348	-74	1 918
income from the acknowledgement of financing	-28980	-16 241	-41 235	-23 109
interest payments and the like expenditures	90857	123 556	129 278	175 804
<b>Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b>	<b>499 599</b>	<b>537 966</b>	<b>710 865</b>	<b>765 457</b>
increase (+) or decrease (-) of debtors debt	367246	308 355	522 544	438 750
increase (+) or decrease (-) of the reserves of accruals	1443208	-502 450	2 053 500	-714 922
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	718600	2 169 437	1 022 476	3 086 831
<b>Gross cash flow from basic activity</b>	<b>3 028 653</b>	<b>2 513 308</b>	<b>4 309 385</b>	<b>3 576 115</b>
Expenditures to pay interest payments	-90857	-123 556	-129 278	-175 804
Expenditures to pay company's income tax and immovable property tax	-15774	-98 302	-22 444	-139 871
<b>Net cash flow from basic activity</b>	<b>2 922 022</b>	<b>2 291 450</b>	<b>4 157 663</b>	<b>3 260 440</b>
<b>II. Cash flow from investments</b>				
Income from selling fixed assets and intangible investments	15112	3 195	21 502	4 546
Acquisition of fixed assets and intangible investments	-2056810	-542 380	-2 926 577	-771 737
Expenditures for advance payments for fixed assets and unfinished	-1601388	-1 391 602	-2 278 570	-1 980 071
Loans repayments	-54138	-105 787	-77 031	-150 521
Interest received	0	14 240	0	20 262
<b>Net cash flow from investments</b>	<b>-3 697 224</b>	<b>-2 022 334</b>	<b>-5 260 676</b>	<b>-2 877 522</b>
<b>III. Cash flow from financing activities</b>				
Loans received	3016490		4 292 079	0
EU financing received		490 746	0	698 269
Expenditures for paying back loans	-2210597	-588 160	-3 145 396	-836 876
Expenditures for redemption of asset that was hired	-28482	-180 764	-40 526	-257 204
<b>Net cash flow from financing activities</b>	<b>777 411</b>	<b>-278 178</b>	<b>1 106 156</b>	<b>-395 812</b>
<b>IV. The result of the exchange rate fluctuations</b>	<b>52</b>		<b>74</b>	<b>0</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>2 261</b>	<b>-9 062</b>	<b>3 217</b>	<b>-12 894</b>
<b>VI. Money and its equivalents balance at the beginning of the year of account</b>	<b>8 536</b>	<b>17 598</b>	<b>12 146</b>	<b>25 040</b>
<b>VII. Money and its equivalents balance at the end of the year of account</b>	<b>10797</b>	<b>8 536</b>	<b>15 363</b>	<b>12 146</b>

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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**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	Total own capital
	LVL	LVL	LVL	LVL		LVL	LVL
<b>December 31, 2009</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>(28 125)</b>	<b>90 074</b>	<b>3 876 649</b>
Distribution of profit of the year 2009	-	-	-	-	90 074	(90 074)	-
Profit of the year of account	-	-	-	-	-	(162 745)	(162 745)
<b>December 31, 2010</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>61 949</b>	<b>(162 745)</b>	<b>3 713 904</b>
Distribution of the year 2010 profit	-	-	-	-	(162 745)	162 745	-
Profit of the year of account	-	-	-	-	-	176 298	176 298
<b>September 30, 2011</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>(100 796)</b>	<b>176 298</b>	<b>3 890 202</b>
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2009</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>(40 018)</b>	<b>128 164</b>	<b>5 515 975</b>
Distribution of the year 2009 profit	-	-	-	-	128 164	(128 164)	-
Profit of the year of account	-	-	-	-	-	(231 565)	(231 565)
<b>December 31, 2010</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>88 145</b>	<b>(231 565)</b>	<b>5 284 409</b>
Distribution of the year 2010 profit	-	-	-	-	(231 565)	231 565	-
Profit of the year of account	-	-	-	-	-	250 849	250 849
<b>September 30, 2011</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>(143 420)</b>	<b>250 849</b>	<b>5 535 259</b>

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



## 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 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 30 September 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:

	30.09.2011	31.12.2010
	LVL	LVL
1RUB	0.0163	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 are accounted for their cost value less depreciation accrued.

Depreciation is calculated for the whole period of useful life by a straight 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 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 and that is LVL 18.94 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.

### **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	
	2011.09.30	2010.09.30	2011.09.30	2010.09.30	2011.09.30	2010.09.30	2011.09.30	2010.09.30
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	5 454 444	6 794 594	12 993 009	7 176 593	774 896	63 242	19 222 349	14 034 429
Production costs of sold products	-4 154 788	-5 394 655	-12 900 880	-7 069 470	-831 214	-203 271	-17 886 882	-12 667 396
Selling costs	-709 233	-977 669	-298 648	-9 907	-73 905	-15 079	-1 081 786	-1 002 655
General administration costs	-2 718	-3 585	-7 677	-2 918	-94 856	-105 530	-105 251	-112 033
Other incomes/expenditures from economic activity	-12 658	74 094	219 495	64 477	-65 089	-155 327	141 748	-16 756
<b>Segment profit</b>	<b>575 047</b>	<b>492 779</b>	<b>5 299</b>	<b>158 775</b>	<b>(290 168)</b>	<b>(415 965)</b>	<b>290 178</b>	<b>235 589</b>
Financial expenditures, net	-4 843	-39 359	-13 357	-9 336	-84 968	-68 226	-103 168	-116 921
Company income tax (undistributable)								
Other taxes			-3 792	-421	-6 920	-2 527	-10 712	-2 948
<b>Net result</b>	<b>570 204</b>	<b>453 420</b>	<b>(11 850)</b>	<b>149 018</b>	<b>(382 056)</b>	<b>(486 718)</b>	<b>176 298</b>	<b>115 720</b>
Segment assets	3 989 741	5 614 227	9 504 643	6 137 313	485 088	2 045 771	13 979 472	13 797 311
Segment liabilities	3 247 431	6 205 305	10 083 393	5 773 698	648 648	1 818 308	13 979 472	13 797 311

  

	Logging		Timber processing		Other and undistributable		Total	
	2011.09.30	2010.09.30	2011.09.30	2010.09.30	2011.09.30	2010.09.30	2011.09.30	2010.09.30
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	7 760 975	9 667 836	18 487 386	10 211 372	1 102 578	89 985	27 350 939	19 969 193
Production costs of sold products	-5 911 731	-7 675 903	-18 356 298	-10 058 950	-1 182 711	-289 229	-25 450 740	-18 024 081
Selling costs	-1 009 148	-1 391 098	-424 938	-14 096	-105 157	-21 455	-1 539 243	-1 426 650
General administration costs	-3 867	-5 101	-10 923	-4 152	-134 968	-150 156	-149 759	-159 409
Other incomes/expenditures from economic activity	-18 011	105 426	312 313	91 743	-92 613	-221 010	201 689	-23 842
<b>Segment profit</b>	<b>818 218</b>	<b>701 161</b>	<b>7 540</b>	<b>225 916</b>	<b>(412 872)</b>	<b>(591 865)</b>	<b>412 886</b>	<b>335 213</b>
Financial expenditures, net	-6 891	-56 003	-19 005	-13 284	-120 899	-97 077	-146 795	-166 364
Company income tax	0	0	0	0	0	0	0	0
Other taxes	0	0	-5 396	-599	-9 846	-3 596	-15 242	-4 195
<b>Net result</b>	<b>811 327</b>	<b>645 159</b>	<b>(16 861)</b>	<b>212 034</b>	<b>(543 617)</b>	<b>(692 537)</b>	<b>250 849</b>	<b>164 655</b>
Segment assets	5 676 890	7 988 325	13 523 889	8 732 610	690 218	2 910 870	19 890 997	19 631 805
Segment liabilities	4 620 678	8 829 354	14 347 376	8 215 232	922 943	2 587 219	19 890 997	19 631 805



**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.

	30.09.2011 LVL	30.09.2010 LVL	30.09.2011 EUR	30.09.2010 EUR
<b>Income from sales, int. Al.</b>	18 559 269	13 401 673	26 407 461	19 068 863
Latvia	18 545 624	13 401 673	26 388 046	19 068 863
the EU countries	0	0	0	0
Other countries	13 645	0	19 415	0
<b>Income from rendering of services, int. Al.</b>	663 080	632 756	943 478	900 331
Latvia	663 080	632 756	943 478	900 331
the EU countries	0	0	0	0
Other countries	0	0	0	0
	<b>19 222 349</b>	<b>14 034 429</b>	<b>27 350 939</b>	<b>19 969 193</b>