

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 9 MONTHS OF YEAR 2011

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Saldus, 2011

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Address: Kuldīgas iela 86c, Saldus, LV-3801,
Saldus District, Republic of Latvia
Single registration number: 40003020121

Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis 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 Dābols – member of the Council (till 23.09.2011)
Subsidiary enterprise	
1. Name of the company	Pukuli Sports Premises (Pakuļu sporta bāze) (100%)
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	Woodworking Centre No.3 (Деревообрабатывающий комбинат № 3) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – September 30, 2011
3. Name of the company	Saldus (Салдус) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – September 30, 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

Management announcement

To Consolidated 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.

The consolidated profit of the holding JSC „Saldus mežrūpniecība” from the of 9 months of year 2011 from economic activities profits is 29187 LVL, whereby Net turnover is 19 225 081 LVL, which comprise profits per emitted share 0,08 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.

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.

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

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

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 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	30.09.2011. LVL	30.09.2010. LVL	30.09.2011. EUR	30.09.2010. EUR
Net turnover		19 225 081	14 046 909	27 354 826	19 986 951
Production costs of the sold production		(17 887 541)	(12 705 683)	(25 451 678)	(18 078 558)
Gross profit		1 337 540	1 341 226	1 903 148	1 908 393
Selling costs		(1 120 613)	(1 020 514)	(1 594 489)	(1 452 061)
General administration costs		(143 387)	(139 622)	(204 021)	(198 664)
Other income from company's economic activity		480 331	387 943	683 449	551 993
Other expenditures from company's economic activity		(339 134)	(388 404)	(482 544)	(552 649)
Profit or loss from economic activity		214 737	180 629	305 543	257 012
Other interest payments and the like payments		(167 136)	(116 960)	(237 813)	(166 419)
Profit or loss before extraordinary items and taxes		47 601	63 669	67 730	90 593
Profit or loss before taxes		47 601	63 669	67 730	90 593
		-	-	-	-
Company's deferred income tax		(18 414)	(15 923)	(26 201)	(22 656)
Other taxes					
Profit or (loss)		29 187	47 746	41 529	67 936
Other incomes (in the review year) that are not shown in the profit and loss account.		-	-	-	-
Profit/ (loss) per share		29 187	47 746	41 529	67 936
LVL per share / EUR per share		0,08	0,12	0,11	0,18

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

Consolidated balance sheet

ASSETS		30.09.2011	31.12.2010	30.09.2011	31.12.2010
	Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like		23 483	34 202	33 413	48 665
Company's intangible value		22 834	22 834	32 490	32 490
TOTAL		46 317	57 036	65 903	81 155
Fixed assets					
Land, premises and buildings		3 238 414	2 835 210	4 607 848	4 034 140
Equipment and machinery		2 916 172	1 236 146	4 149 339	1 758 877
Other fixed assets		18 972	18 468	26 995	26 278
Unfinished constructions		1 236 705	1 458 255	1 759 673	2 074 910
Advance payments for fixed assets		2 729 046	1 405 810	3 883 083	2 000 287
TOTAL		10 139 309	6 953 889	14 426 937	9 894 493
Biological assets		676 205	636 134	962 153	905 137
TOTAL LONG-TERM INVESTMENTS		10 861 831	7 647 059	15 454 993	10 880 785
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		190 400	245 536	270 915	349 366
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		538 609	191 209	766 372	272 066
Advance payments for goods		96 734	123 085	137 640	175 134
TOATL		2 246 528	3 741 468	3 196 521	5 323 629
Noncurrent assets held for sale					
Fixed assets held for sale		210 197	210 197	299 083	299 083
Debtors					
Debts of buyers and customers		215 032	279 591	305 963	397 822
Accured income		1 134	1 224	1 614	1 742
Other debtors		105 130	230 047	149 587	327 327
Expenditures of the next periods		270 671	304 093	385 130	432 685
TOTAL		591 967	814 955	842 293	1 159 576
Money and its equivalents		39 796	98 445	56 625	140 075
TOTAL CURRENT ASSETS		3 088 488	4 865 066	4 394 523	6 922 364
TOTAL ASSETS		13 950 319	12 512 125	19 849 516	17 803 150

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Board:

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Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidate balance sheet (continuation)

Shareholders' equity and liabilities	Note	30.09.2011 LVL	31.12.2010. LVL	30.09.2011 EUR	31.12.2010. EUR
Shareholders' equity					
Share capital		387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		7 658	802 492	10 896	1 141 843
Adjustment reserve of foreign currency		802 492	(48 558)	1 141 843	(69 092)
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year		(406 284)	(133 607)	(578 090)	(190 106)
Retained earnings from the year of account		29 187	(237 843)	41 529	(338 420)
TOTAL		3 445 261	3 394 692	4 902 165	4 830 212
Total shareholders' equity		3 445 261	3 394 692	4 902 165	4 830 212
Liabilities					
Long-term liabilities					
Deferred company's income tax		88 848	88 848	126 419	126 419
Long-term loans from credit institutions		1 003 879	1 147 488	1 428 391	1 632 728
Long-term part of financial lease liabilities		39 733	84 051	56 535	119 594
Other creditors		925 359	947 269	1 316 667	1 347 842
Long-term part of incomes from next periods		489 013	540 393	695 803	768 910
TOTAL		2 546 832	2 808 049	3 623 815	3 995 494
Short-term liabilities					
Short-term loans from credit institutions		3 159 494	2 255 824	4 495 555	3 209 748
Short-term part of financial lease		177 907	138 199	253 139	196 639
Advance payments received from buyers		68 692	115 125	97 740	163 808
Debts to suppliers and contractors		4 165 918	3 482 658	5 927 567	4 955 376
Provisions liabilities		20 526	17 041	29 206	24 247
Accrued liabilities		119 527	119 527	170 072	170 072
Taxes payable		127 174	96 467	180 952	137 260
Other creditors		80 347	68 302	114 323	97 185
Incomes from the next periods short-term part		38 641	16 241	54 981	23 109
Unpaid dividends from the previous years				-	-
TOTAL		7 958 226	6 309 384	11 323 535	8 977 445
Total liabilities		10 505 058	9 117 433	14 947 351	12 972 938
Total shareholders' equity and liabilities		13 950 319	12 512 125	19 849 516	17 803 150

The annex is an integral part of this financial statement

Board:

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Chairman of board

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Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated cash flow statement

	30.09.2011	31.12.2010	30.09.2011	31.12.2010
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	47 601	63 669	67 730	90 593
wear and tear of fixed assets and intangible investments (+)	467125	470 362	664 659	669 265
elimination of fixed assets and intangible investments	-111712	24 202	-158 952	34 436
revaluation of biological assets	-84938		-120 856	0
profit (-) or loss (+) from fluctuations of exchange rate	-52		-74	0
income from the acknowledgement of financing	-28980		-41 235	0
interest payments and the like expenditures	90857	116 961	129 278	166 421
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	379 901	675 194	540 550	960 715
increase (+) or decrease (-) of debtors debt	342549	-1 934 349	487 403	-2 752 331
increase (+) or decrease (-) of the reserves of accruals	1539807	-197 843	2 190 948	-281 505
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	667603	3 518 427	949 913	5 006 271
Gross cash flow from basic activity	2 929 860	2 061 429	4 168 815	2 933 149
Expenditures to pay interest payments	-90857	-238 393	-129 278	-339 203
Expenditures to pay company's income tax and immovable property tax	-21891	-15 923	-31 148	-22 656
Net cash flow from basic activity	2 817 112	1 807 113	4 008 389	2 571 290
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	15112		21 502	0
Acquisition of fixed assets and intangible investments	-2041838	-151 259	-2 905 274	-215 222
Expenditures for advance payments for fixed assets and unfinished	-1601388	-1 326 335	-2 278 570	-1 887 205
Interest received		121 433	0	172 784
Net cash flow from investments	-3 628 114	-1 356 161	-5 162 341	-1 929 643
III. Cash flow from financing activities				
Loans received	-2256429		-3 210 609	0
EU financing received				
Expenditures for paying back loans	3016490	-447 640	4 292 079	-636 934
Expenditures for redemption of asset that was hired	-29143		-41 467	0
Net cash flow from financing activities	730 918	-447 640	1 040 003	-636 934
IV. The result of the exchange rate fluctuations	21 435	-11 305	30 499	-16 086
V. Net cash flow of the year of account increase (+), decrease (-)	-58 649	-7 993	-83 450	-11 373
VI. Money and its equivalents balance at the beginning of the year of account	98 445	20 181	140 075	28 715
VII. Money and its equivalents balance at the end of the year of account	39796	12 188	56 625	17 342

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

Statement on the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from reestimation on fixed assets	Retained earnings/loss from the previous year	Retained earnings/loss of the year of account	Currency fluctuations due to the reestimation of foreign currency	Total own capital
	LVL	LVL	LVL		LVL	LVL	LVL	LVL
December 31, 2009	387 136	1 987	2 623 085	802 492	(251 432)	123 899	(116 904)	3 570 261
Currency fluctuations due to recalculation					(6 078)		68 346	62 268
Distribution of profit of the year 2009					123 904	(123 899)		
Disbursed dividends								
Reserves from reestimation on fixed assets								
Profit of the year of account						(237 843)		(237 843)
December 31, 2010	387 136	1 987	2 623 085	802 492	(133 606)	(237 843)	(48 558)	3 394 697
Currency fluctuations due to recalculation							56 216	56 216
Reserves from reestimation on fixed assets	-	-						
Distribution of the year 2010 profit	-	-			(272 677)	237 843		(34 834)
Disbursed dividends	-	-						
Profit of the year of account	-	-	-			29 187		29 187
September 30, 2011	387 136	1 987	2 623 085	802 492	(406 283)	29 187	7 658	3 445 265

	Share capital	Share premium	Other reserves	Reserves from reestimation on fixed assets	Retained earnings/loss from the previous year	Retained earnings/loss of the year of account	Currency fluctuations due to the reestimation of foreign currency	Total own capital
	EUR	EUR	EUR		EUR	EUR	EUR	EUR
December 31, 2009	550 845	2 827	3 732 314	1 141 843	(357 756)	176 292	(166 339)	5 080 027
Currency fluctuations due to recalculation	-	-	-		(8 648)	-	97 248	88 599
Distribution of profit of the year 2009	-	-	-	-	176 300	(176 292)	-	
Disbursed dividends	-	-	-	-	-	-	-	
Reserves from reestimation on fixed assets	-	-	-	-	-	-	-	
Profit of the year of account	-	-	-	-	-	(338 420)	-	(338 420)
December 31, 2010	550 845	2 827	3 732 314	1 141 843	(190 104)	(338 420)	(69 092)	4 830 213
Currency fluctuations due to recalculation	-	-	-	-	-	-	79 988	79 988
Reserves from reestimation on fixed assets	-	-	-	-	-	-	-	
Distribution of the year 2010 profit	-	-	-	-	(387 984)	338 420	-	(49 564)
Disbursed dividends	-	-	-	-	-	-	-	
Profit of the year of account	-	-	-	-	-	41 529	-	41 529
September 30, 2011	550 845	2 827	3 732 314	1 141 843	(578 089)	41 529	10 896	4 902 165

Board:

Jānis Bertrāns
 Chairman of board

Janis Mierkalns
 Vice-chairman

Gundars Maurs
 Member of board

Gatis Zommers
 Member of board

Annex to the financial statement

1. Corporative 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.

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 ДеревООбрабатыВАЮЩИЙ комбинат № 3 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 Rreporting 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 ooo Saldus and ooo ДеревООбРабатыВАЮЩИЙ комБинат № 3 where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the ooo Saldus and ooo Saldus Ļes 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.

	30.06.2011.	31.12.2010.
RUB/ LVL	0.0163	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:

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 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 m³. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

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.

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	
	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	5 454 849	6 796 315	12 995 336	7 187 352	774 896	63 242	19 225 081	14 046 909
Production costs of sold products	(4 155 122)	(5 396 550)	(12 900 970)	(7 104 718)	(831 449)	(204 415)	(17 887 541)	(12 705 683)
Selling costs	(709 857)	(977 669)	(336 851)	(27 766)	(73 905)	(15 079)	(1 120 613)	(1 020 514)
General administration costs	(4 406)	(6 018)	(44 101)	(27 338)	(94 880)	(106 266)	(143 387)	(139 622)
Other incomes/expenditures from economic activity	(12 658)	74 848	218 944	80 198	(65 089)	(155 507)	141 197	(461)
Segment profit	572 806	490 926	(67 642)	107 728	(230 059)	(418 025)	214 737	180 629
Financial expenditures, net	(6 009)	(58 939)	(75 080)	11 086	(86 047)	(69 107)	(167 136)	(116 960)
Company income tax (undistributable)	-	-	-	-	-	-	-	-
Other taxes	(67)	(72)	(11 270)	(13 324)	(7 077)	(2 527)	(18 414)	(15 923)
Net result	566 730	431 915	(153 992)	105 490	(323 183)	(489 659)	29 187	47 746
Segment assets	3 958 209	5 547 511	9 429 822	6 357 750	562 289	2 047 017	13 950 319	13 952 278
Segment liabilities	3 240 539	6 138 589	10 061 341	5 994 135	648 439	1 819 554	13 950 319	13 952 278

	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	7 761 551	9 670 285	18 490 697	10 226 681	1 102 578	89 985	27 354 826	19 986 951
Production costs of sold products	(5 912 206)	(7 678 599)	(18 356 427)	(10 109 103)	(1 183 045)	(290 856)	(25 451 678)	(18 078 558)
Selling costs	(1 010 036)	(1 391 098)	(479 296)	(39 507)	(105 157)	(21 455)	(1 594 489)	(1 452 061)
General administration costs	(6 269)	(8 563)	(62 750)	(38 898)	(135 002)	(151 203)	(204 021)	(198 664)
Other incomes/expenditures from economic activity	(18 011)	106 499	311 529	114 111	(92 613)	(221 267)	200 905	(656)
Segment profit	815 030	698 525	(96 246)	153 283	(413 240)	(594 796)	305 543	257 012
Financial expenditures, net	(8 550)	(83 863)	(106 829)	15 774	(122 434)	(98 330)	(237 813)	(166 419)
Company income tax	-	-	-	-	-	-	-	-
Other taxes	(95)	(102)	(16 036)	(18 958)	(10 070)	(3 596)	(26 201)	(22 656)
Net result	806 384	614 560	(219 111)	150 099	(545 744)	(696 722)	41 529	67 936
Segment assets	5 632 024	7 893 397	13 417 428	9 046 263	800 065	2 912 643	19 849 517	19 852 303
Segment liabilities	4 610 872	8 734 425	14 315 998	8 528 886	922 646	2 588 992	19 849 516	19 852 303

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.

	2011.09.30 LVL	2010.09.30 LVL	2011.09.30 EUR	2010.09.30 EUR
Income from sales, int. Al.	18 559 269	13 409 846	26 407 461	19 080 492
Latvia	18 545 624	13 401 673	26 388 046	19 068 863
Russia	13 645	8 173	19 415	11 629
Income from rendering of services, int. Al.	665 812	637 063	947 365	906 459
Latvia	663 080	632 756	943 478	900 331
Russia	2 732	4 307	3 887	6 128
	19 225 081	14 046 909	27 354 826	19 986 951