

**JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”**

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE 2011 (NOT AUDITED)**

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

**Saldus, 2012**

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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, Rīga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns ( <i>Jānis Bertrāns</i> ) – Chancellor of the Board Janis Merkalns ( <i>Jānis Mierkalns</i> ) – member of the Board Gundars Maurs ( <i>Gundars Maurs</i> ) – member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) – member of the Board
Members of the Council: name, surname, position	Uldis Melkalns ( <i>Uldis Mierkalns</i> ) – Chairman of the Council Lolita Burkovska ( <i>Lolita Burkovska</i> ) – Deputy Chairman of the Board Maris Elleris ( <i>Māris Elleris</i> ) – member of the Council Janis Leimanis ( <i>Jānis Leimanis</i> ) – member of the Council Ainis Dābols – member of the Council (till 23.09.2011)
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2011
2. Name of the company	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> ) (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 –December 31, 2011
3. Name of the company	Saldus ( <i>Салдус</i> ) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2011

## **Management announcement**

### ***To Report of economic activity for the 2011***

#### **Business description in the framework of report period**

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

Profit of A/s „Saldus mežrūpniecība” for the year 2011 are 394 232 LVL at the net turnover of 25 340 247 LVL, which means profit on one share issued of 1.02 LVL.

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

#### **Forecasts for financial statments and operational plans of 2012**

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

#### **Business and financial risk management policy**

In order to increase competitiveness of the company in this economic situation, the production volumes are being increased by more rational use of company resources, by organization of long-term cooperation with providers of resources and by searching for new markets and analyzing client's solvency. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.

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

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of 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

February 29. 2012

Valde:

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Jānis Bertrāns  
valdes priekšsēdētājs

Jānis Mierkalns  
valdes loceklis

Gundars Maurs  
valdes loceklis

Gatis Zommers  
valdes loceklis

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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 December 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

	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Piezīme	LVL	LVL	EUR	EUR
Net turnover	25 340 247	19 646 498	36 055 923	27 954 448
Production costs of the sold production	-24 290 399	-18 561 546	-34 562 124	-26 410 701
<b>Gross profit</b>	<b>1 049 848</b>	<b>1 084 952</b>	<b>1 493 799</b>	<b>1 543 748</b>
Selling costs	-678 301	-818 045	-965 135	-1 163 973
General administration costs	-162 127	-192 898	-230 686	-274 469
Other income from company's economic activity	806 141	407 571	1 147 035	579 921
Other expenditures from company's economic activity	-457 712	-489 188	-651 266	-696 052
<b>Profit or loss from economic activity</b>	<b>557 849</b>	<b>-7 608</b>	<b>793 747</b>	<b>-10 825</b>
Other interest income and the like income			0	0
Other interest payments and the like payments	-150 027	-157 409	-213 469	-223 973
<b>Profit or loss before extraordinary items and taxes</b>	<b>407 822</b>	<b>-165 017</b>	<b>580 278</b>	<b>-234 798</b>
Extraordinary income				
Extraordinary expenditures				
<b>Profit or loss before taxes</b>	<b>407 822</b>	<b>-165 017</b>	<b>580 278</b>	<b>-234 798</b>
Company's income tax	0	0	0	0
Company's deferred income tax		15 490	0	22 040
Other taxes	-13 590	-13 218	-19 337	-18 808
<b>Profit or (loss)</b>	<b>394 232</b>	<b>-162 745</b>	<b>560 941</b>	<b>-231 565</b>
<b>Profit/ (loss) per share</b>				
<i>lats per share / EUR per share</i>	<b>1.02</b>	<b>-0.42</b>	<b>1.45</b>	<b>-0.60</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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## Balance sheet

### AKTĪVS

	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like items		10 114	17 837	14 391	25 380
Company's intangible value		-	-	-	-
Advance payments for intangible investments					
<b>TOTAL</b>		<b>10 114</b>	<b>17 837</b>	<b>14 391</b>	<b>25 380</b>
<b>Fixed assets</b>					
Land, premises and buildings		3 506 275	2 781 578	4 988 980	3 957 829
Equipment and machinery		3 125 983	1 140 975	4 447 873	1 623 461
Other fixed assets		51 232	18 205	72 897	25 903
Unfinished constructions		86 895	836 041	123 640	1 189 579
Advance payments for fixed assets		3 335 699	1 405 810	4 746 272	2 000 287
<b>TOTAL</b>		<b>10 106 084</b>	<b>6 182 609</b>	<b>14 379 663</b>	<b>8 797 060</b>
<b>Biological assets</b>		<b>677 492</b>	<b>636 134</b>	<b>963 984</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		797 708	731 541	1 135 036	1 040 889
<b>TOTAL</b>		<b>1 212 850</b>	<b>1 146 683</b>	<b>1 725 730</b>	<b>1 631 583</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>12 006 540</b>	<b>7 983 263</b>	<b>17 083 768</b>	<b>11 359 160</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		13 858	39 313	19 718	55 937
Biological assets		399 707	337 995	568 732	480 924
Unfinished production		1 248 414	2 843 643	1 776 333	4 046 139
Finished production and goods for sale		568 406	142 978	808 769	203 439
Advance payments for goods		25 437	160 055	36 194	227 738
<b>TOTAL</b>		<b>2 255 822</b>	<b>3 523 984</b>	<b>3 209 746</b>	<b>5 014 177</b>
<b>Noncurrent assets held for sale</b>					
Fixed assets held for sale		89 654	210 197	127 566	299 083
<b>Debtors</b>					
Debts of buyers and customers		259 663	371 737	369 467	528 934
Debts of subsidiaries		241 356	42 524	343 419	60 506
Other debtors		43 212	141 894	61 485	201 897
Expenditures of the next periods		41 944	37 510	59 681	53 372
<b>TOTAL</b>		<b>586 175</b>	<b>593 665</b>	<b>834 052</b>	<b>844 709</b>
<b>Money and its equivalents</b>		<b>4 531</b>	<b>8 536</b>	<b>6 447</b>	<b>12 146</b>
<b>TOTAL CURRENT ASSETS</b>		<b>2 936 182</b>	<b>4 336 382</b>	<b>4 177 811</b>	<b>6 170 116</b>
<b>TOTAL ASSETS</b>		<b>14 942 722</b>	<b>12 319 645</b>	<b>21 261 578</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	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 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
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		-100 796	61 949	-143 420	88 145
Retained earnings from the year of account		394 232	-162 745	560 941	-231 565
<b>TOTAL</b>		<b>4 108 136</b>	<b>3 713 904</b>	<b>5 845 351</b>	<b>5 284 409</b>
<b>Total shareholders'equity</b>		<b>4 108 136</b>	<b>3 713 904</b>	<b>5 845 351</b>	<b>5 284 409</b>
<b>Other accruals</b>		<b>86 967</b>	<b>119 527</b>	<b>123 743</b>	<b>170 072</b>
		<b>86 967</b>	<b>119 527</b>	<b>123 743</b>	<b>170 072</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		3 846 226	820 310	5 472 687	1 167 196
Long-term part of financial lease liabilities		16 012	84 051	22 783	119 594
Other creditors			925 359	0	1 316 667
Long-term part of incomes from next periods		907 920	540 393	1 291 854	768 910
<b>TOTAL</b>		<b>4 859 006</b>	<b>2 458 961</b>	<b>6 913 743</b>	<b>3 498 786</b>
<b>Short-term liabilities</b>					
Short-term loans from credit institutions		130 370	2 243 190	185 500	3 191 772
Short-term part of financial lease		122 190	138 199	173 861	196 639
Advance payments received from buyers				0	0
Debts to suppliers and contractors		4 429 014	3 459 619	6 301 919	4 922 594
Liabilities provisions		42 579	17 041	60 584	24 247
Accured liabilities				0	0
Taxes payable		135 920	93 499	193 397	133 037
Other creditors		989 855	59 464	1 408 437	84 610
Incomes from the next periods short-term part		38 685	16 241	55 044	23 109
Unpaid dividends from the previous years				0	0
<b>TOTAL</b>		<b>5 888 613</b>	<b>6 027 253</b>	<b>8 378 741</b>	<b>8 576 008</b>
<b>Total liabilities</b>		<b>10 747 619</b>	<b>8 486 214</b>	<b>15 292 484</b>	<b>12 074 795</b>
<b>Total shareholders'equity and liabilities</b>		<b>14 942 722</b>	<b>12 319 645</b>	<b>21 261 578</b>	<b>17 529 276</b>

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns

Jānis Mierkalns

Gundars Maurs

Gatis Zommers

	valdes priekšsēdētājs	valdes loceklis	valdes loceklis	valdes loceklis
<b>Cash flow statement</b>				
wear and tear of fixed assets and intangible investments (+)		672256	558 871	956 534
elimination of fixed assets and intangible investments		-109111	9 103	-155 251
revaluation of long-term investments			109 184	0
revaluation of biological assets		-103070	-82 838	-146 655
profit (-) or loss (+) from fluctuations of exchange rate		-52	1 348	-74
income from the acknowledgement of financing		-91925	-16 241	-130 797
interest payments and the like expenditures		123351	123 556	175 513
<b>Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b>		<b>908 071</b>	<b>537 966</b>	<b>1 292 069</b>
increase (+) or decrease (-) of debtors debt		127050	308 355	180 776
increase (+) or decrease (-) of the reserves of accruals		1378565	-502 450	1 961 521
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors		990451	2 169 437	1 409 285
<b>Gross cash flow from basic activity</b>		<b>3 404 137</b>	<b>2 513 308</b>	<b>4 843 651</b>
Expenditures to pay interest payments		-123351	-123 556	-175 513
Expenditures to pay company's income tax and immovable property tax		-15774	-98 302	-22 444
<b>Net cash flow from basic activity</b>		<b>3 265 012</b>	<b>2 291 450</b>	<b>4 645 694</b>
<b>II. Cash flow from investments</b>				
Income from selling fixed assets and intangible investments		15112	3 195	21 502
Acquisition of fixed assets and intangible investments		-3314635	-542 380	-4 716 301
Expenditures for advance payments for fixed assets and unfinished		-1205523	-1 391 602	-1 715 305
Loans repayments		-74967	-105 787	-106 668
Interest received		0	14 240	0
<b>Net cash flow from investments</b>		<b>-4 580 013</b>	<b>-2 022 334</b>	<b>-6 516 771</b>
<b>III. Cash flow from financing activities</b>				
Loans received		3016490		4 292 079
EU financing received		481896	490 746	685 676
Expenditures for paying back loans		-2103394	-588 160	-2 992 860
Expenditures for redemption of asset that was hired		-84048	-180 764	-119 590
<b>Net cash flow from financing activities</b>		<b>1 310 944</b>	<b>-278 178</b>	<b>1 865 305</b>
<b>IV. The result of the exchange rate fluctuations</b>		<b>52</b>		<b>74</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>		<b>-4 005</b>	<b>-9 062</b>	<b>-5 699</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>VII. Money and its equivalents balance at the end of the year of account</b>		<b>4531</b>	<b>8 536</b>	<b>6 447</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	Toatal 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	-	-	-	-	-	394 232	394 232
<b>December 31,2011</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>(100 796)</b>	<b>394 232</b>	<b>4 108 136</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	-	-	-	-	-	560 941	560 942
<b>December 31,2011</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>(143 420)</b>	<b>560 941</b>	<b>5 845 351</b>

The annex is an integral part of this financial statement

Valde:

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valdes priekšsēdētājs

Jānis Mierkalns  
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## Annex to the financial statement

### 1. Corporative information

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

### 2. Important accounting principles

#### *Basis of preparation*

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

The financial statements of JSC „Saldus mežrūpniecība have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance applicable in the reporting year.

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

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

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

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

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

#### *Foreign currency translation*

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

Currency exchange rates established by the Bank of Latvia:.

	31.12.2011	31.12.2010
	LVL	LVL
1 RUB	0.0170	0.0176
1 EUR	0,702804	0,702804

#### *Intangible investment*

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

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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 19.07 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

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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**

	<b>Logging</b>		<b>Timber processing</b>		<b>Other</b>		<b>Total</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
Net turnover	6 733 596	9 180 503	17 726 062	10 375 043	880 589	90 952	25 340 247	19 646 498
Production costs of sold products	-5 107 612	-7 839 875	-18 005 798	-10 425 538	-1 176 989	-296 133	-24 290 399	-18 561 546
Selling costs	-649 068	-763 257	-12 109	-14 949	-17 124	-39 839	-678 301	-818 045
General administration costs	-3 754	-4 336	-12 382	-4 958	-145 991	-183 604	-162 127	-192 898
Other incomes/expenditures from economic activity	-2 858	115 635	319 911	87 357	31 376	-284 609	348 429	-81 617
<b>Segment profit</b>	<b>970 304</b>	<b>688 670</b>	<b>15 684</b>	<b>16 955</b>	<b>-428 139</b>	<b>-713 233</b>	<b>557 849</b>	<b>-7 608</b>
Financial expenditures, net	-6 381	-48 475	-17 903	-13 639	-125 743	-95 295	-150 027	-157 409
Company income tax (undistributable)						15 490		15 490
Other taxes			-5 019	-4 476	-8 571	-8 742	-13 590	-13 218
<b>Net result</b>	<b>963 923</b>	<b>640 195</b>	<b>-7 238</b>	<b>-1 160</b>	<b>-562 453</b>	<b>-801 780</b>	<b>394 232</b>	<b>-162 745</b>
Segment assets	4 034 535	5 635 006	10 459 905	6 072 139	448 282	612 500	14 942 722	12 319 645
Segment liabilities	3 137 972	4 900 005	11 057 614	5 582 138	747 136	1 837 502	14 942 722	12 319 645

  

	<b>Logging</b>		<b>Timber processing</b>		<b>Other</b>		<b>Total</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Net turnover	9 581 044	13 062 679	25 221 914	14 762 356	1 252 965	129 413	36 055 923	27 954 448
Production costs of sold products	-7 267 477	-11 155 137	-25 619 942	-14 834 204	-1 674 704	-421 359	-34 562 124	-26 410 701
Selling costs	-923 541	-1 086 017	-17 230	-21 271	-24 365	-56 686	-965 135	-1 163 973
General administration costs	-5 341	-6 170	-17 618	-7 055	-207 726	-261 245	-230 686	-274 469
Other incomes/expenditures from economic activity	-4 067	164 534	455 192	124 298	44 644	-404 962	495 770	-116 131
<b>Segment profit</b>	<b>1 380 618</b>	<b>979 889</b>	<b>22 316</b>	<b>24 125</b>	<b>-609 187</b>	<b>-1 014 839</b>	<b>793 748</b>	<b>-10 825</b>
Financial expenditures, net	-9 079	-68 974	-25 474	-19 407	-178 916	-135 593	-213 469	-223 973
Company income tax	0	0	0	0	0	22 040	0	22 040
Other taxes	0	0	-7 141	-6 369	-12 195	-12 439	-19 337	-18 808
<b>Net result</b>	<b>1 371 539</b>	<b>910 915</b>	<b>-10 299</b>	<b>-1 651</b>	<b>-800 299</b>	<b>-1 140 830</b>	<b>560 942</b>	<b>-231 565</b>
Segment assets	5 740 626	8 017 891	14 883 105	8 639 875	637 848	871 509	21 261 578	17 529 276
Segment liabilities	4 464 931	6 972 079	15 733 568	7 942 667	1 063 079	2 614 530	21 261 578	17 529 276

**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.

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
<b>Income from sales, int. Al.</b>	24 437 071	18 763 744	34 770 819	26 698 402
Latvia	24 437 071	18 763 744	34 770 819	26 698 402
the EU countries				
Other countries				
<b>Income from rendering of services, int. Al.</b>	903 176	882 754	1 285 104	1 256 046
Latvia	903 176	882 754	1 285 104	1 256 046
the EU countries				
Other countries				
	<b>25 340 247</b>	<b>19 646 498</b>	<b>36 055 923</b>	<b>27 954 448</b>