

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE 2011 (NOT AUDITED)

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Saldus, 2012

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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 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>)
Legal status of the company	(100%) Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2011
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2011
Name and address of the Auditor	(Translated from Latvian) Svetlana Kolesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.127

Management announcement

To Consolidated report of economic activity for 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” of year 2011 from economic activities profits is 165 863 LVL, whereby Net turnover is 25 347 305 LVL, which comprise profits per emitted share 0,43 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 2012

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.

February 29, 2012

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 December 31, 2011, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

Consolidated income statement

	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Net turnover		25347305	19660224	36065966	27973979
Production costs of the sold production		-24291745	-18602346	-34564039	-26468754
Gross profit		1055560	1057878	1501927	1505225
Selling costs		-741903	-841396	-1055633	-1197199
General administration costs		-211222	-230221	-300542	-327575
Other income from company's economic activity		931598	422781	1325545	601563
Other expenditures from company's economic activity		-680296	-492133	-967974	-700242
Profit or loss from economic activity		353737	-83091	503322	-118228
Other interest payments and the like payments		-174127	-143085	-247760	-203592
Profit or loss before extraordinary items and taxes		179610	-226176	255562	-321819
Profit or loss before taxes		179610	-226176	255562	-321819
		0	0	0	0
Company's deferred income tax			15490	0	22040
Other taxes		-13747	-27157	-19560	-38641
Profit or (loss)		165863	-237843	236002	-338420
Other incomes (in the review year) that are not shown in the profit and loss account.		0	0	0	0
Profit/ (loss) per share		165863	-237843	236002	-338420
LVL per share / EUR per share		0.43	-0.61	0.61	-0.87

The annex is an integral part of this financial statement

Board :

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated balance sheet

ASSETS		31.12.2011	31.12.2010	31.12.2011	31.12.2010
	Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like		10 115	34 202	14 392	48 665
Company's intangible value		201 034	201 034	286 046	286 046
TOTAL		211 149	235 236	300 438	334 711
Fixed assets					
Land, premises and buildings		4 059 818	2 835 210	5 776 601	4 034 140
Equipment and machinery		3 224 233	1 236 146	4 587 670	1 758 877
Other fixed assets		55 002	18 468	78 261	26 278
Unfinished constructions		226 734	1 458 255	322 613	2 074 910
Advance payments for fixed assets		3 335 699	1 405 810	4 746 272	2 000 287
TOTAL		10 901 486	6 953 889	15 511 417	9 894 493
Biological assets		677 492	636 134	963 984	905 137
TOTAL LONG-TERM INVESTMENTS		11 790 127	7 825 259	16 775 839	11 134 340
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		129 500	245 536	184 262	349 366
Biological assets		399 707	337 995	568 732	480 924
Unfinished production		1 295 202	2 843 643	1 842 906	4 046 139
Finished production and goods for sale		614 347	191 209	874 137	272 066
Advance payments for goods		101 589	123 085	144 548	175 134
TOATL		2 540 345	3 741 468	3 614 585	5 323 629
Noncurrent assets held for sale					
Fixed assets held for sale		89 654	210 197	127 566	299 083
Debtors					
Debts of buyers and customers		272 691	279 591	388 004	397 822
Overpaid corporate income tax		25 116	115 845	35 737	164 833
Accured income		1 182	1 224	1 682	1 742
Other debtors		97 001	114 203	138 020	162 496
Expenditures of the next periods		252 413	304 093	359 151	432 685
TOTAL		648 403	814 956	922 594	1 159 578
Money and its equivalents		5 026	98 445	7 151	140 075
TOTAL CURRENT ASSETS		3 283 428	4 865 066	4 671 897	6 922 365
TOTAL ASSETS		15 073 555	12 690 325	21 447 736	18 056 706

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Vice-chairman

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Member of board

Consolidate balance sheet (continuation)

Shareholders'equity and liabilities	Note	31.12.2011 LVL	31.12.2010. LVL	31.12.2011 EUR	31.12.2010. EUR
Shareholders'equity					
Share capital		387136	387136	550845	550845
Increase of price of the issue of shares		1987	1987	2827	2827
Reserves from revaluation of long-term investments		-90139	-31732	-128256	-45151
Adjustment reserve of foreign currency		802492	802492	1141843	1141843
Other reserves		2623085	2623085	3732314	3732314
Retained earnings from the previos year		-367640	-133607	-523105	-190106
Retained earnings from the year of accunt		165863	-237843	236002	-338420
TOTAL		3522784	3411518	5012470	4854153
Total shareholders'equity		3522784	3411518	5012470	4854153
Accured liabilities		86967	119527	123743	170072
Liabilities					
Long-term liabilities					
Deferred company's income tax		88848	88848	126419	126419
Long-term loans from credit institutions		4109501	1147488	5847293	1632728
Long-term part of financial lease liabilities		37922	84051	53958	119594
Other creditors		114958	947269	163570	1347842
Long-term part of incomes from next periods		907920	540393	1291854	768910
TOTAL		5259149	2808049	7483095	3995494
Short-term liabilities					
Short-term loans from credit institutions		143004	2255824	203476	3209748
Short-term part of financial lease		127053	138199	180780	196639
Advance payments received from buyers		257750	276499	366745	393423
Debts to suppliers and contractors		4445134	3482658	6324856	4955376
Provisions liabilities		42579	17041	60584	24247
Taxes payable		143173	96467	203717	137260
Other creditors		1 007 277	68 302	1 433 226	97 185
Incomes from the next periods short-term part		38 685	16 241	55 044	23 109
Unpaid dividends from the previous years				-	-
TOTAL		6 204 655	6 351 231	8 828 429	9 036 988
Total liabilities		11 463 804	9 159 280	16 311 524	13 032 481
Total shareholders'equity and liabilities		15 073 555	12 690 325	21 447 736	18 056 706

The annex is an integral part of this financial statement

Board:

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Member of board

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Member of board

Consolidated cash flow statement

	31.12.2011	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:	179 610	-226 176	255 562	-321 819
wear and tear of fixed assets and intangible investments (+)	672914	585 248	957 470	832 733
elimination of fixed assets and intangible investments	-92747	113 987	-131 967	162 189
revaluation of biological assets	-103070	-82 838	-146 655	-117 868
profit (-) or loss (+) from fluctuations of exchange rate	-52	-1 348	-74	-1 918
Reevaluation of long-term investments		109 184	0	155 355
income from the acknowledgement of financing	-91925	-16 241	-130 797	-23 109
interest payments and the like expenditures	145740	293 062	207 369	416 990
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	710 470	777 574	1 010 908	1 106 388
increase (+) or decrease (-) of debtors debt	286113	332 571	407 102	473 206
increase (+) or decrease (-) of the reserves of accruals	1286747	-437 476	1 830 876	-622 472
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	1095075	2 126 481	1 558 151	3 025 710
Gross cash flow from basic activity	3 378 405	2 799 150	4 807 037	3 982 832
Expenditures to pay interest payments	-145740	-293 062	-207 369	-416 990
Expenditures to pay company's income tax and immovable property tax	-15774	-112 241	-22 444	-159 705
Net cash flow from basic activity	3 216 891	2 393 847	4 577 224	3 406 137
II. Cash flow from investments				
Income from selling fixed assets and intangible investments				0
Acquisition of fixed assets and intangible investments	15112	18 739	21 502	26 663
Expenditures for advance payments for fixed assets and unfinished	-3314635	-545 900	-4 716 301	-776 746
Interest received	-1205523	-1 469 402	-1 715 305	-2 090 771
Net cash flow from investments	-4 505 046	-1 996 563	-6 410 103	-2 840 853
III. Cash flow from financing activities				
Loans received	-2167297	0	-3 083 786	0
EU financing received	481896	490 746	685 676	698 269
Expenditures for paying back loans	3016490	-638 481	4 292 079	-908 477
Expenditures for redemption of asset that was hired	-81808	-180 764	-116 402	-257 204
Net cash flow from financing activities	1 249 281	-328 499	1 777 567	-467 412
IV. The result of the exchange rate fluctuations	-54 545	9 479	-77 611	13 487
V. Net cash flow of the year of account increase (+), decrease (-)	-93 419	78 264	-132 923	111 360
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	5026	98 445	7 151	140 075

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)	3 570 263
Currency fluctuations due to recalculation					(6 078)		85 172	79 094
Distribution of profit of the year 2009					123 904	(123 899)		5
Disbursed dividends								-
Reserves from reestimation on fixed								-
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)	(31 732)	3 411 519
Currency fluctuations due to recalculation							(58 407)	(58 407)
Reserves from reestimation on fixed	-	-						-
Distribution of the year 2010 profit	-	-			(234 033)	237 843		3 810
Disbursed dividends	-	-						-
Profit of the year of account	-	-	-			165 863		165 863
December 31, 2011	387 136	1 987	2 623 085	802 492	(367 639)	165 863	(90 139)	3 522 784

	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)	-	121 189	112 541
Distribution of profit of the year 2009	-	-	-	-	176 300	(176 292)	-	7
Disbursed dividends	-	-	-	-	-	-	-	-
Reserves from reestimation on fixed	-	-	-	-	-	-	-	-
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)	(45 151)	4 854 154
Currency fluctuations due to recalculation	-	-	-	-	-	-	(83 106)	(83 106)
Reserves from reestimation on fixed	-	-	-	-	-	-	-	-
Distribution of the year 2010 profit	-	-	-	-	(332 999)	338 420	-	5 421
Disbursed dividends	-	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	236 002	-	236 002
December 31, 2011	550 845	2 827	3 732 314	1 141 843	(523 103)	236 002	(128 256)	5 012 470

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. Corporate information

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

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., ооо ДЕРЕВООБРАБАТЫВАЮЩИЙ КОМБИНАТ № 3 and ооо Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūpniecība and its subsidiary companies were one company. In preparation of the Holding's financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net actives obtained by the Holding is accounted as an intangible value.

Consolidation of foreign subsidiary companies

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

Changes in the accounting principles

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

Application of the International Financial Reporting Standards

- IAS 1 Presentation of financial statements
- IAS 2 Inventories
- IAS 7 Cash flow statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors
- IAS 10 Events After the Balance Sheet Date
- IAS 14 Segments Reporting
- IAS 16 Property, Plant, and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs

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

Use of calculations (continuation)

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

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the 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.

	31.12.2011.	31.12.2010.
RUB/ LVL	0.0170	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 19.07 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		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6733997	9182273	17732719	10386999	880589	90952	25347305	19660224
Production costs of sold products	-5107942	-7841247	-18006814	-10463445	-1176989	-297654	-24291745	-18602346
Selling costs	-649819	-763257	-74961	-38300	-17123	-39839	-741903	-841396
General administration costs	-5797	-7283	-59260	-38557	-146165	-184381	-211222	-230221
Other incomes/expenditures from economic activity	-17329	112949	237255	102308	31376	-284609	251302	-69352
Segment profit	953110	683435	-171061	-50995	-230059	-715531	353737	-83091
Financial expenditures, net	-6474	-64094	-39818	17522	-127835	-96513	-174127	-143085
Company income tax (undistributable)						15490		15490
Other taxes		-1312	-5019	-16918	-8728	-8927	-13747	-27157
Net result	946636	618029	-215898	-50391	-366622	-805481	165863	-237843
Segment assets	4069860	5613933	10551489	6475834	452207	600558	15073555	12690325
Segment liabilities	3165447	4874754	11154431	5983048	753678	1832523	15073555	12690325

	logging		timber processing		Other		Total	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9581615	13065197	25231386	14779368	1252965	129413	36065966	27973979
Production costs of sold products	-7267947	-11157089	-25621388	-14888141	-1674704	-423523	-34564039	-26468754
Selling costs	-924609	-1086017	-106660	-54496	-24364	-56686	-1055633	-1197199
General administration costs	-8248	-10363	-84319	-54862	-207974	-262351	-300542	-327575
Other incomes/expenditures from economic activity	-24657	160712	337583	145571	44644	-404962	357571	-98679
Segment profit	1356153	972440	-243398	-72559	-609433	-1018109	503322	-118228
Financial expenditures, net	-9212	-91198	-56656	24932	-181893	-137326	-247760	-203592
Company income tax	0	0	0	0	0	22040	0	22040
Other taxes	0	-1867	-7141	-24072	-12419	-12702	-19560	-38641
Net result	1346942	879376	-307195	-71700	-803745	-1146096	236002	-338420
Segment assets	5790889	7987907	15013416	9214282	643433	854517	21447737	18056706
Segment liabilities	4504025	6936150	15871325	8513110	1072387	2607445	21447737	18056706

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	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	EUR	EUR
Income from sales, int. Al.	24 440 610	18 774 698	34 775 855	26 713 989
Latvia	24 437 071	18 763 744	34 770 819	26 698 402
Russia	3 539	10 954	5 036	15 586
Income from rendering of services, int. Al.	906 695	885 526	1 290 111	1 259 990
Latvia	903 176	882 754	1 285 104	1 256 046
Russia	3 519	2 772	5 007	3 944
	25 347 305	19 660 224	36 065 966	27 973 979