

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2012

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2013

CONTENT

Information about the Company	3
Management announcement	4
Statement of Management Responsibility	5
Consolidated income statement	6
Consolidated balance sheet	7
Consolidate balance sheet (continuation)	8
Consolidated cash flow statement	9
Statement on the changes in own capital	10
Annex to the financial statement	11
Auditor's statement	31

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 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 Gunvaldis Vēsmiņš – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2012
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, 2012
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, 2012
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 2012

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 2012 from economic activities profits is 950 499 LVL, whereby Net turnover is 27 417 706 LVL, which comprise profits per emitted share 2.46 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 2013

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.

April 30, 2013

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

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 31 December 2012, 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	31.12.2012 LVL	31.12.2011 LVL	31.12.2012 EUR	31.12.2011 EUR
Net turnover	4	27 417 706	25 904 280	39 011 881	36 858 470
Production costs of the sold production	5	-24 908 517	-24 229 204	-35 441 627	-34 475 051
Gross profit		2 509 189	1 675 076	3 570 254	2 383 418
Selling costs	6	-557 079	-767 403	-792 652	-1 091 916
General administration costs	7	-288 346	-250 155	-410 279	-355 938
Other income from company's economic activity	8	167 362	333 222	238 135	474 132
Other expenditures from company's economic activity	8	-512 464	-505 257	-729 171	-718 916
Profit or loss from economic activity		1 318 662	485 483	1 876 287	690 780
Other interest income and the like income	10	44 742	18 338	63 662	26 093
Other interest payments and the like payments	10	-190 975	-277 533	-271 733	-394 894
Profit or loss before extraordinary items and taxes		1 172 429	226 288	1 668 216	321 979
Company's income tax	11				
Company's deferred income tax	11	-209 138	113 877	-297 577	162 032
Other taxes	12	-12 792	-13 816	-18 201	-19 658
Profit or (loss)		950 499	326 349	1 352 438	464 353
Peļņa/zaudējumi uz akciju		2,46	0,84	3,49	1,20
lati uz akciju/EUR uz akciju					
Profit or loss		950 499	326 349	1 352 438	464 353
Other comprehensive income for the period		47113	-4931	67036	-7016
Total comprehensive income for the period		997 612	321 418	1 419 474	457 337

The annex is an integral part of this financial statement

Board :

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Consolidated balance sheet

ASSETS						
	Note	31.12.2012	31.12.2011	31.12.2012	31.12.2011	
		LVL	LVL	EUR	EUR	
LONG-TERM INVESTMENTS						
Intangible investments						
Concessions, patents, licences, trademarks and the like items		9 021	20 647	12 836	29 378	
Goodwill		227 096	201 034	323 128	286 046	
TOTAL	13	236 117	221 681	335 964	315 424	
Fixed assets						
Land, premises and buildings		3 923 558	4 056 025	5 582 720	5 771 204	
Equipment and machinery		7 170 990	3 221 163	10 203 400	4 583 302	
Other fixed assets		62 146	51 333	88 426	73 040	
Unfinished constructions		991 272	227 948	1 410 453	324 341	
Advance payments for fixed assets		46 025	3 335 699	65 488	4 746 272	
TOTAL	14	12 193 991	10 892 168	17 350 486	15 498 159	
Biological assets		719 301	677 492	1 023 473	963 984	
Long-term financial investments						
Deferred income tax		1 210	26 212	1 722	37 296	
TOTAL		1 210	26 212	1 722	37 296	
TOTAL LONG-TERM INVESTMENTS		13 150 619	11 817 553	18 711 645	16 814 863	
CURRENT ASSETS						
Stocks						
Raw materials, direct materials, auxiliary materials		201 679	175 916	286 963	250 306	
Biological assets		251 989	399 707	358 548	568 732	
Unfinished production		1 545 014	1 248 415	2 198 357	1 776 335	
Finished production and goods for sale		436 764	612 075	621 459	870 904	
Advance payments for goods		81 523	35 235	115 997	50 135	
TOATL	15	2 516 969	2 471 348	3 581 324	3 516 411	
Noncurrent assets held for sale						
Fixed assets held for sale		62 203	89 654	88 507	127 566	
Debtors						
Debts of buyers and customers	16	946 264	300 057	1 346 412	426 943	
Debts of subsidiaries		25 166	25 116	0	35 737	
Other debtors	17	145 861	121 568	243 278	172 976	
Expenditures of the next periods	18	236 834	243 708	336 984	346 765	
TOTAL		1 354 075	690 449	1 926 675	982 420	
Money and its equivalents	19	24 414	5 026	34 738	7 151	
TOTAL CURRENT ASSETS		3 957 661	3 256 477	5 631 244	4 633 549	
TOTAL ASSETS		17 108 280	15 074 030	24 342 889	21 448 412	

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Consolidate balance sheet (continuation)

LIABILITIES

	Note	31.12.2012	31.12.2011	31.12.2012	31.12.2011
		LVL	LVL	EUR	EUR
Shareholders'equity					
Share capital	20	387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Fluctation of exchange rate		-3 847	-36 663	-5 474	-52 167
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		-73 963	-414 609	-105 240	-589 935
Retained earnings from the year of account		950 499	326 349	1 352 438	464 353
Total shareholders'equity		4 687 389	3 689 777	6 669 554	5 250 080
Long-term liabilities					
Deferred company's income tax	11	184 108	0	261 962	0
Long-term loans from credit institutions	21	3 703 884	4 109 500	5 270 152	5 847 292
Long-term part of financial lease liabilities	22		7 415	0	10 551
Other creditors		4 108 420	55 042	5 845 755	78 318
Accrued liabilities	25	109 544	86 967	155 867	123 743
Long-term part of incomes from next periods	27	395 725	764 561	563 066	1 087 872
TOTAL		8 501 681	5 023 485	12 096 802	7 147 775
Short-term liabilities					
Short-term loans from credit institutions	21	924 733	143 022	1 315 777	203 502
Short-term part of financial lease	22	7 415	130 786	10 551	186 092
Advance payments received from buyers		0	245 358	0	349 113
Debts to suppliers and contractors		2 314 369	4 464 560	3 293 050	6 352 497
Liabilities provisions	26	91 430	50 017	130 093	71 168
Taxes payable	23	162 677	145 003	231 469	206 321
Other creditors	24	76 399	999 978	108 706	1 422 841
Incomes from the next periods short-term part	27	342 187	182 044	486 888	259 025
TOTAL		3 919 210	6 360 768	5 576 533	9 050 557
Total liabilities		12 420 891	11 384 253	17 673 336	16 198 333
Total shareholders'equity and liabilities		17 108 280	15 074 030	24 342 889	21 448 412

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns Chairman of board	Janis Mierkalns Vice-chairman	Gatis Zommers Member of board
-------------------------------------	----------------------------------	----------------------------------

Consolidated cash flow statement

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	1 172 429	226 288	1 668 216	321 979
wear and tear of fixed assets and intangible investments (+)	1 099 021	685885	1 563 766	975 926
elimination of fixed assets and intangible investments	29	-95104	41	-135 321
revaluation of long-term investments				
revaluation of biological assets	-233 234	-103070	-331 862	-146 655
Accruals (except accruals for doubtful debts)	22 577	-32560	32 124	-46 329
profit (-) or loss (+) from fluctuations of exchange rate	-28	-52	-40	-74
Interest income	-23 248	0	-33 079	0
Income from finansation recognition	-208 693	-91925	-296 943	-130 797
Interest expenditure	124 055	124054	176 514	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	1 889 778	713516	2 688 911	1 015 242
increase (+) or decrease (-) of debtors debt	-640 378	244 067	-911 176	347 276
increase (+) or decrease (-) of the reserves of accruals	-165 888	1 355 744	-236 037	1 929 050
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	780 545	1 075 365	1 110 615	1 530 107
Gross cash flow from basic activity	1 864 057	3 388 692	2 652 314	4 821 674
Expenditures to pay interest payments	-124 055	-123351	-176 514	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-16957	0	-24 128
Net cash flow from basic activity	1 740 002	3248384	2 475 799	4 622 034
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	402 273	15112	572 383	21 502
Acquisition of fixed assets and intangible investments	-2 087 540	-3315848	-2 970 302	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	-285 825	-1216138	-406 692	-1 730 408
Loans issued	0	0	0	0
Income from loans repayments				
Net cash flow from investments	-1 971 092	-4516874	-2 804 611	-6 426 933
III. Cash flow from financing activities				
Recieved loans	571 908	-194256	813 752	-276 401
Recieved subsidies, donations or benefactions	0	481896	0	685 676
Expenditures for paying back loans	-195 813	1043466	-278 617	1 484 718
Expenditures for redemption of asset that was hired	-130 786	-107997	-186 092	-153 666
Cash flow from financing activities	245 309	1223109	349 043	1 740 327
IV. Fluctuations of exchange rate	5 169	-48 038	7 355	-68 352
V. Net cash flow of the year of account increase (+), decrease (-)	19 388	-93 419	27 586	-132 923
VI. Money and its equivalents balance at the beginning of the year of account	5 026	98 445	7 151	140 075
VII. Money and its equivalents balance at the end of the year of account	24 414	5 026	34 738	7 151

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of boardJanis Mierkalns
Vice-chairmanGatis Zommers
Member of board

Statement on the changes in own capital

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2010	387 136	802 492	-31 732	1 987	2 623 085	-133 606	-237 843	3 411 519
Fluctuation of exchange rate	0	0	-4 931	0	0	0	0	-4 931
Distribution of profit of the year 2010	0	0	0	0	0	-281 002	237 843	-43 159
Profit of the year of account	0	0	0	0	0	0	326 349	326 349
December 31, 2011	387 136	802 492	-36 663	1 987	2 623 085	-414 608	326 349	3 689 777
Fluctuation of exchange rate	0	0	47 113	0	0	0	0	47 113
Distribution of profit of the year 2011	0	0	-14 297	0	0	340 646	-326 349	0
Profit of the year of account	0	0	0	0	0	0	950 499	950 499
December 31, 2012	387 136	802 492	-3 847	1 987	2 623 085	-73 962	950 499	4 687 389

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2010	550 845	1 141 843	-45 151	2 827	3 732 314	-190 104	-338 420	4 854 154
Fluctuation of exchange rate	0	0	-7 016	0	0	0	0	-7 016
Distribution of profit of the year 2010	0	0	0	0	0	-399 830	338 420	-61 410
Profit of the year of account	0	0	0	0	0	0	464 353	464 353
December 31, 2011	550 845	1 141 843	-52 167	2 827	3 732 314	-589 934	464 353	5 250 080
Fluctuation of exchange rate	0	0	67 036	0	0	0	0	67 036
Distribution of profit of the year 2011	0	0	-20 343	0	0	484 696	-464 353	0
Profit of the year of account	0	0	0	0	0	0	1 352 438	1 352 438
December 31, 2012	550 845	1 141 843	-5 474	2 827	3 732 314	-105 238	1 352 438	6 669 554

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

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.

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2012 consolidated report, hereinafter Holding company.

2. Important accounting principles

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

Principles of preparing the financial statement

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

Currency and items used in the preparation of the financial statement

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

Consolidation

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., 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.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

Amendments to IFRS 7 “Financial Instruments: Disclosures” - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.
Standards and Interpretations issued by IASB and adopted by the EU but not yet effective.

At the date of authorization of these financial statements the following standards revisions and interpretations adopted by the EU were in issue but not yet effective:

IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

Amendments to IAS 1 “Presentation of financial statements” - Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),

Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),

Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 13 “Fair Value Measurement”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),

IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of all other standards revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Use of calculations

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 000 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 Ls 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.

	31.12.2012.	31.12.2011.
RUB	0.0174	0.0170
USD	0.531	0.544
EUR	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 included 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	10-20 years
Equipment and machinery	2-10 years
Forest equipment	3-5 years
Timber processing lines	3-10 years
Other capital assets	2-10 years
Computing and data gathering devices, software	2-5 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 2012 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 2012. 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 of 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	
	2012	2011	2012	2011	2012	2011	2012	2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6 692 949	6 733 596	18 719 227	18 322 062	2 005 530	848 622	27 417 706	25 904 280
Production costs of the sold production	-5 350 085	-6 000 254	-17 489 727	-17 661 797	-2 068 705	-567 153	-24 908 517	-24 229 204
Selling costs	-464 494	-649 068	-54 904	-52 166	-37 681	-66 169	-557 079	-767 403
General administration costs	-14 857	-12 913	-67 894	-27 781	-205 594	-209 461	-288 345	-250 155
Other income/expenditures from company's economic activity	-8 812	-34 099	-112 634	-141 395	-223 656	3 459	-345 102	-172 035
Profit or loss from economic activity	854 701	37 262	994 068	438 923	-530 106	9 298	1 318 663	485 483
Other interset income/payments and the like income	-6 885	-7 762	-41 179	-67 592	-98 169	-183 841	-146 234	-259 195
Company's deferred income tax	0	0	0	0	-209 138	113 877	-209 138	113 877
Other taxes	0	0	0	-5 176	-12 792	-8 640	-12 792	-13 816
Segments other income	-85 045	0	-55 211	0	140 256	0	0	0
Profit or (loss)	762 771	29 500	897 678	366 155	-709 949	-69 306	950 499	326 349
Segment assets	4 176 310	3 919 248	11 680 546	10 657 339	1 251 424	497 443	17 108 280	15 074 030

Segment liabilities	3 674 677	3 467 027	12 012 724	10 250 340	1 420 879	1 356 663	17 108 280	15 074 030
	Logging		Timber processing		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 523 208	9 581 044	26 635 060	26 069 946	2 853 612	1 207 480	39 011 881	36 858 470
Production costs of the sold production	-7 612	-8 537	-24 885	-25 130	-2 943 502	-806 986	-35 441	-34 475
	485	592	640	473			627	051
Selling costs	-660 915	-923 541	-78 121	-74 226	-53 615	-94 150	-792 652	-1 091 916
General administration costs	-21 140	-18 374	-96 604	-39 529	-292 534	-298 036	-410 278	-355 938
Other income/expenditures from company's economic activity	-12 538	-48 519	-160 264	-201 187	-318 234	4 922	-491 036	-244 784
Profit or loss from economic activity	1 216 130	53 019	1 414 431	624 531	-754 273	13 230	1 876 288	690 780
Other interset income/payments and the like income	-9 796	-11 044	-58 592	-96 175	-139 682	-261 582	-208 072	-368 801
Company's deferred income tax	0	0	0	0	-297 577	162 032	-297 577	162 032
Other taxes	0	0	0	-7 365	-18 201	-12 294	-18 201	-19 658
Segments other income	-121 008	0	-78 558	0	199 566	0	0	0
Profit or (loss)	1 085 325	41 975	1 277 281	520 992	-1 010 166	-98 614	1 352 438	464 353
Segment assets	5 942 354	5 576 587	16 619 920	15 164 027	1 780 616	707 798	24 342 889	21 448 412
Segment liabilities	5 228 594	4 933 135	17 092 567	14 584 920	2 021 728	1 930 358	24 342 889	21 448 412

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.

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Income from sales, int. Al.	25 625 777	24 441 003	36 462 196	34 776 414
Latvia	25 309 169	24 437 664	36 011 703	34 771 663
Other countries	316 608	3 339	450 493	4 751

Income from rendering of services, int. Al.	1 583 055	1 371 308	2 252 484	1 951 195
Latvia	1 573 732	1 371 308	2 239 219	1 951 195
Other countries	9 323	0	13 265	0
Financing of the EU structural funds	208 694	91 969	296 945	130 860
	27 417 706	25 904 280	39 011 881	36 858 470

5. Production costs of sold products

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
<u>Production cost of products sold</u>				
Salary of employees	1 603 562	1 506 476	2 281 663	2 143 522
Doubtful debtors reserve	0	21 809	0	31 031
Depreciation of property, plant and equipment	996 729	660 955	1 418 218	940 454
Costs of purchase of materials	15 232 729	15 197 147	21 674 220	21 623 592
Stem fee (purchase of cutting rights)	3 826 781	3 271 910	5 445 019	4 655 509
Electricity and heating costs	399 438	286 246	568 349	407 291
Production related contractors expenses	1 674 279	1 742 979	2 382 284	2 480 036
Production equipment maintenance costs	1 170 662	1 495 974	1 665 702	2 128 579
Other services received	4 337	45 708	6 171	65 037
	24 908 517	24 229 204	35 441 627	34 475 051

6. Selling costs

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Adevertisement costs, market research, marketing	411	15 761	585	22 426
Transportation costs of goods	461 088	663 466	656 069	944 027
Salary of employees	15 787	14 482	22 463	20 606
Other production costs	79 793	73 694	113 536	104 857
	557 079	767 403	792 652	1 091 916

7. General and administration costs

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Salaries to employees	75 646	106 570	107 634	151 635
Maintenance of administration capital assets	69 203	48 470	98 467	68 967
Expense associated with maintenance of administration	29 369	38 756	41 789	55 145
Office maintenance costs	72 907	41 362	103 738	58 853
Annual report expenses	3 300	2 600	4 695	3 699
Banking expenses	37 920	12 397	53 955	17 639
	288 346	250 155	410 279	355 938

8. Other income from economic activity

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<u>Other income</u>				
Income from services	57 605	2 713	81 965	3 860
Income from minimization of doubtful debt reserve	0	115 230	0	163 958
Net income from sale of long term investment	17 027	102 066	24 227	145 227
Income from lease of fixed assets	77 336	93 726	110 039	133 360
Financing of the EU structural funds and LAD	15 394	19 487	21 904	27 728
Other income				
	167 362	333 222	238 135	474 132
<u>Other expense</u>				
Net loss from exclusion of long term investment	0	729	0	1 037
Net loss from revaluation of long term investment	0	0	0	0
Dues paid for land plots used in production	23 726	31 416	33 759	44 701
Security costs	289 587	265 455	412 045	377 708
Personnel training costs (EU project)	62	24 570	88	34 960
Other expense for provision of economic activities	199 089	183 087	283 278	260 509
				718 916
	512 464	505 257	729 171	

9. Staff costs

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Average number of employees	175	195		
Total personnel costs				
wage from a different legislative	15 127	36 102	21 523	51 369
Wage	1 307 735	1 243 708	1 860 739	1 769 637
Social tax	313 214	298 036	445 664	424 067
Unemployment risk due	524	0	746	0
	1 636 600	1 577 846	2 328 672	2 245 073
including:				
wages of production workers				
wage from a different legislative	6 068	14 482	8 634	20 606
wages	1 251 973	1 176 997	1 781 397	1 674 716
social tax	299 781	282 418	426 551	401 845
unemployment risk due	509	0	724	0
	1 558 331	1 473 897	2 217 306	2 097 166
administration wages				
wage from a different legislative	9 059	21 620	12 890	30 762
wages	17 454	53 691	24 835	76 396
social tax	4 205	12 958	5 983	18 437
Unemployment risk due	9	0	13	0
	30 727	88 269	43 721	125 595

incl. remuneration to company management - board				
wages	38 308	13 020	54 508	18 526
Social tax	9 228	2 657	13 131	3 781
Unemployment risk due	6	3	9	4
	47 542	15 680	67 648	22 311

10. Other costs of economic activity

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<u>Income</u>				
Income from currency exchange	19 765	0	28 123	0
Donations	106	545	150	775
Other income	24 871	17 793	35 389	25 317
	44 742	18 338	63 662	26 093
<u>Expense</u>				
Currency exchange expense	2 201	104 813	3 132	149 135
Donations	0	300	0	427
Fines paid	14 869	6 157	21 156	8 761
Other expense	44 377	18 090	63 143	25 740
Loan interest calculated	128 513	133 300	182 858	189 669
Financial lease interest recognised	1 014	14 873	1 443	21 162
	190 975	277 533	271 733	394 894

11. Deferred company income tax:

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<i>Liabilities of the deferred company income tax</i>				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	-9 273 539	-5 559 340	-13 195 057	-7 910 228
Residual value of capital assets needed for taxes	6 163 544	4 484 996	8 769 933	6 381 574
Tax losses not covered	1 773 057	1 154 243	2 522 833	1 642 340
Accruals for holidays	109 544	86 987	155 867	123 771
Temporary difference	1 227 394	166 886	1 746 335	237 457
Liabilities of deferred tax	-184 108	25 030	-261 962	35 614
Assets of deferred tax	-209 138	113 877	-297 577	162 032

A deferred tax asset according to other legislation 1210 LVL (1722 EUR)

To calculate the rate of deferred tax 15 % rate is applicable.

12. Other taxes

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Real estate tax	12 792	13 816	18 201	19 658
	12 792	13 816	18 201	19 658

13. Intangible investments

	Software	Total
	LVL	LVL
As at 31.12.2011.	81275	81275
Cost	0	0
2012 Exchange rate	620	620
Impairment	0	0
As at 31.12.2012.	81895	81895
Amortisation accrued 31.12.2011.	60628	60628
Amortisation	11873	11873
2012 Exchange rate	372	372
Impairment	0	0
Amortisation accrued 31.12.2012.	72 873	72 873
As at 31.12.2011.	20 646	20646
As at 31.12.2012.	9 021	9021
Amortisation rate (by linear method)	5 year	
	EUR	EUR
As at 31.12.2011.	115 643	115 643
Cost	0	0
2012 Exchange rate	881	881
Impairment	0	0
As at 31.12.2012.	116 524	116 524
Amortisation accrued 31.12.2011.	86 265	86 265
Amortisation	16894	16894
2012 Exchange rate	529	529
Impairment	0	0
Amortisation accrued 31.12.2012.	103 688	103 688
As at 31.12.2011.	29 378	29 378
As at 31.12.2012.	12 836	12 836
Amortisation rate (by linear method)	5 year	

Goodwill

Holdings goodwill on 31.12.2012 is 227 096 LVL (323 128 EUR).

14. Capital assets

	Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished fixed assets	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Accounting value 31.12.2011.	4 832 512	5 666 911	116 361	227 948	3 335 699	14 179 431
2012 Purchase	68 575	1 144 660	27 934	846 371	285 825	2 373 365
Liquidity	0	-184	-1 661	0	0	-1 845
Reconstruction	0	3 659 982	0	-84 482	-3 575 500	0
Fluctuations of exchange rate	15 430	281	54	1 435	0	17 200
Accounting value 31.12.2012.	4 916 517	10 471 650	142 688	991 272	46 025	16 568 151
Accured wear and tear 31.12.2011.	776 487	2 445 748	65 029	0	0	3 287 264
2012 Wear and tear	216 094	853 959	17 095	0	0	1 087 148
Wear and tear of liquid assets	0	-184	-1 633	0	0	-1 817
Fluctuations of exchange rate	378	1 139	52	0	0	1 569
Accured wear and tear 31.12.2012.	992 959	3 300 662	80 543	0	0	4 374 164
Residual value 31.12.2011.	4 056 025	3 221 163	51 333	227 948	3 335 699	10 892 168
Residual value 31.12.2012.	3 923 558	7 170 990	62 146	991 272	46 025	12 193 991

Rate of wear and tear (linear method)	5-20 year EUR	4-10 year EUR	3-10 year EUR	EUR	EUR	EUR
Accounting value 31.12.2011.	6 876 044	8 063 288	165 567	324 341	4 746 272	20 175 512
2012 Purchase	97 573	1 628 704	39 747	1 204 277	406 692	3 376 994
Liquidity	0	-262	-2 363	0	0	-2 625
Reconstruction	21 955	5 207 685	0	-120 207	-5 087 478	0
Fluctuations of exchange rate	0	0	0	0	0	0
Accounting value 31.12.2012.	6 995 573	14 899 816	203 027	1 410 453	65 486	23 574 355
Accured wear and tear 31.12.2011.	1 104 841	3 479 986	92 528	0	0	4 677 355
2012 Wear and tear	307 474	1 215 074	24 324	0	0	1 546 872
Wear and tear of liquid assets	0	-262	-2 324	0	0	-2 585
Fluctuations of exchange rate	0	0	0	0	0	0
Accured wear and tear 31.12.2012.	1 412 853	4 696 419	114 602	0	0	6 223 874
Residual value 31.12.2011.	5 771 204	4 583 302	73 040	324 341	4 746 272	15 498 159
Residual value 31.12.2012.	5 582 720	10 203 400	88 426	1 410 453	65 488	17 350 486

Rate of wear and tear (linear method) 5-20 year 4-10 year 3-10 year

Unfinished construction and advance payments for capital assets

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Unfinished fixed assets Russia	0	60 967	0	86 748
Unfinished fixed assets Pakuļu sporta bāze SIA	78 872	78 872	112 225	112 225
Unfinished fixed assets Saldus mežrūpniecība AS	912 400	88 109	1 298 228	125 368
	991 272	227 948	1 410 453	324 341
Advanced payment for fixed assets Saldus mežrūpniecība AS	46 025	3 335 699	65 488	4 746 272

15. Reserves

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Materials, spare parts, inventory	201 679	175 916	286 963	250 306
Biological assets	251 989	399 707	358 548	568 732
Unfinished goods (round timber in forest and in mill)	1 174 068	1 005 523	1 670 548	1 430 730
Timber in production	370 946	242 892	527 809	345 604
Total unfinished goods:	1 545 014	1 248 415	2 198 357	1 776 335
Ready sawn materials products	436 764	612 075	621 458	870 904
Goods in retail trade shop		0	0	0
Total ready products and goods for sale	436 764	612 075	621 459	870 904
Advance payments for goods	81 523	35 235	115 997	50 135

In the Holding on 31.12.2012. was carried out inventory and non-marketable stocks were not established.

16. Trade receivables

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Accounting value of trade receivables	1 071 527	446 158	1 524 646	634 826
Doubtful debt reserve (-)	125 263	146 101	178 234	207 883
Accounting value	946 264	300 057	1 346 412	426 943

Residuals of debtors debts in the balance sheet are shown in their net value except for the reserves for doubtful debts in the amount of 20 838 LVL (29 650 EUR) which were established from the accounting value of these debts. Reserves for insecure debts were made on the bases of estimation of the financial situation and economic activity of some of the customers by taking into consideration the debt repayment in compliance with the concluded agreement and possibility of recovery. Reserves are made for the debtors who 2 years in turn

have not responded to collation acts and can not be found in their given addresses and for the debtors against whom there has been started the procedure of insolvency (reference from the CR).

17. Other debtors

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Surplus VAT payment	51 687	27 819	73 544	39 583
VAT paid in advance on boarder	441	441	627	627
Guarantee payments made	2 961	2 978	4 213	4 237
Loans to employees	1 752	1 752	2 493	2 493
Other debtors	89 020	88 579	126 664	126 037
In total other debtors	145 861	121 568	207 542	172 976

18. Expenditures of the next periods

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Insurance	8 586	9 391	12 217	13 362
Licence fees	445	526	633	748
Other	227 803	233 791	324 134	332 655
In total expenditure of the next periods	236 834	243 708	336 984	346 765

19. Money and its equivalents

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Money in accounts	24 414	5 026	34 738	7 151
Money total	24 414	5 026	34 738	7 151

20. Share capital, reserves and profit per share

Changes in share capital and distribution of shares among shareholders are shown in the following way:

	%	2012	2012
		LVL	EUR
Shares of closed issue			
LTD SEZ Laskana	26,00	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	26,99	104 489	148 674
Physical persons of the Republic of Latvia	2,99	11 577	16 473
SIA JL Lindex	15,99	61 915	88 097
Shares of public offering *			
	28,03	108 500	154 382
Total:	100	387 136	550 845
31.12.2011		387 136	550 845
31.12.2012		387 136	550 845

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Profit of the period of account	950 499	326 349	1 352 438	464 353
Number of shares 31.12.2012	387 136	387 136	550 845	550 845
Basic profit per share per year	2.46	0,84	3.49	1,20

*Shares of public offering consist of 108 500 shares the holder and controller of which is the joint-stock company Latvian Central Depository, consequently these shares are available in the market.

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account which makes 326 349 Ls is divided with the weighted-average number of shares in circulation in the period of account which is 387 136.

A nominal value of each share is 1 Latvian lat.

In compliance with the statutes, the profit which remains after dividends are paid and included in undividable reserves is included in other reserves and used for the further development of the company.

21. Loans from credit institutions

		The repayment term	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Long-term:						
A/s Swedbank	3 mon.Euribor + %	1 year or more	163 168	215 960	232 168	307 283
A/s Swedbank	3 mon.Euribor + %	1 year or more	34 681	47 314	49 347	67 322
Nordea Bank Finland Plc creditline	The Base rate EONIA +	1 year or more	1 755 041	2 099 615	2 497 199	2 987 483
Nordea Bank Finland Plc creditline	The Base rate EONIA +	1 year or more	881 761	1 056 671	1 254 633	1 503 507
Nordea Bank Finland Plc	Fixed + %	1 year or more	90 323	0	128 519	0
Nordea Bank Finland Plc	Fixed + %	1 year or more	219 339	0	312 091	0
Nordea Bank Finland Plc	3 mon.Euribor + %	1 year or more	367 976	453 718	523 583	645 583
Nordea Bank Finland Plc	3 mon.Euribor + %	1 year or more	191 594	236 222	272 613	336 114
			3 703 884	4 109 500	5 270 152	5 847 292
Short-term:						
A/s Swedbank	3 mon.Euribor + %	up to 12 mon.	12 634	12 652	17 977	18 002
Nordea Bank Finland Plc creditline	The Base rate EONIA +	up to 12 mon.	351 396	0	499 992	0
Nordea Bank Finland Plc creditline	The Base rate EONIA +	up to 12 mon.	421 681	0	599 998	0
Nordea Bank Finland Plc	Fixed + %	up to 12 mon.	1 088	0	1 548	0
Nordea Bank Finland Plc	Fixed + %	up to 12 mon.	7 563	0	10 762	0

Nordea Bank Finland Plc	3 mon.Euribor + %	up to 12 mon.	85 742	85 742	122 000	122 000
Nordea Bank Finland Plc	3 mon.Euribor + %	up to 12 mon.	44 628	44 628	63 500	63 500
			924 733	143 022	1 315 777	203 502
Total			4 628 617	4 252 522	6 585 929	6 050 794

As the collateral for the claims raised due to the loan agreement signed the Company has mortgaged real estate.

22. Liabilities of financial lease and other loans

	% rate in force	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Long-term:					
SIA Hanza līzings	3 mon. Euribor+%	0	6 224	0	8 856
SIA Nordea līzings	Fixed rate	0	1 191	0	1 695
		0	7 415	0	10 551
Short-term:					
SIA Hanza līzings	3 mon. Euribor+%	6 224	70 922	8 855	100 913
SIA Nordea līzings	Fixed rate	1 191	5 715	1 695	8 131
Willenbrock Baltic UAB		0	54 150	0	77 048
		7 415	130 786	10 549	186 092
Total		7 415	138 201	10 549	196 643

Loan agreement liabilities refer to loan agreements of one motor vehicles starting from 2008, with final payment period at April 1, 2013. Accounting value of cars used in financial lease is set at 6 179 LVL (8 792 EUR). Lease agreement liabilities refer to one contracts for lease of forestry equipment starting from 2006, with the maturity date at February 28, 2013. Accounting value of equipment used in the finance lease is 11 841 LVL (16 848 EUR).

23. Taxes payable

	31.12.2011 LVL	Paid in 2012 LVL	Calculated in 2012 LVL	Fine LVL	Taxes recognized as other taxes LVL	31.12.2012 LVL
Company Income Tax(Adjustment)	25116	0	0	0	0	25116
VAT	13006	119250	-50861	-1160	-30740	49494
VAT on the boarder	441	0	0	0	0	441
Peoples Income Tax	-69082	274116	-285142	-5074	15486	-69696
Compulsory Payments of Social Insurance Tax	-66327	437184	-456285	-2086	15257	-72256
Natural Resources Tax	-438	480	-487	-7	-3	-455
Property Tax	-1861	14524	-12792	-132	0	-261
Risk due	-41	488	-524	-1	0	-78

Total	-7254					-19931
Debt on taxes	-106 440	846 042	-806 090	-8 460	0	-87 625
Overpayd taxes	-145 003					-162 677
Company Income Tax(Adjustment)	38 563					75 051

	31.12.2011	Paid in 2012	Calculated in 2012	Fine	Taxes recognized as other taxes	31.12.2012
	EUR	EUR	EUR	EUR	EUR	EUR
Company Income Tax(Adjustment)	35737	0	0	0	0	35737
VAT	18506	169677	-72369	-1651	-43740	70424
VAT on the boarder	627	0	0	0	0	627
Peoples Income Tax	-98295	390032	-405721	-7220	22035	-99168
Compulsory Payments of Social Insurance Tax	-94375	622057	-649235	-2968	21709	-102811
Natural Resources Tax	-623	683	-693	-10	-4	-647
Property Tax	-2648	20665	-18201	-187	0	-371
Risk due	-58	694	-746	-2	0	-111
Total	-10322	0	0	0	0	-28359
Debt on taxes	-151 450	1 203 809	-1 146 963	-12 038	0	-124 680
Overpayd taxes	-206 321					-231 469
Company Income Tax(Adjustment)	54 870					106 789

In compliance with the law on taxes in force in the Republic of Latvia, Company Income Tax is paid in advance. Consequently, after a year of account, when the due tax is calculated, the due tax or surplus payment is established.

24. Other liabilities

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<u>Short-term</u>				
Salary payments	73 012	63 298	103 887	90 065
Contributions to private pension funds	2 138	2 138	3 042	3 042
Payments for deductions from wages	880	806	1 252	1 147
Advance payments to employees	369	126	525	179
Other creditors	0	933 610	0	1 328 408
	76 399	999 978	108 706	1 422 841
<u>Long-term:</u>				
Other creditors	4 108 420	0	5 845 755	0
	4 108 420	0	5 845 755	0

Loans from other creditors have been secured by mortgage on real estate, in total cadastral value 147 000 LVL.

25. Accrued liabilities

	2012	2011	2012	2011
--	------	------	------	------

	LVL	LVL	EUR	EUR
Accrued for holidays	109 544	86 967	155 867	123 743
	109 544	86 967	155 867	123 743

26. Liabilities provisions

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Accrued liabilities	91 430	50 017	130 093	71 168
	91 430	50 017	130 093	71 168

27. Incomes from the next periods

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Long-term:				
Project No. 124000041	12 184	23 440	17 336	33 352
Project No..04/415034/0002/023	4 978	9 966	7 083	14 180
Project No.L-APV-10-0015	378 563	731 155	538 646	1 040 340
	395725	764 561	563 065	1 087 872
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No..04/415034/0002/023	4 988	4 988	7 097	7 097
Project No.L-APV-10-0015	325 902	165 759	463 716	235 854
Other income	44	44	63	63
	342187	182 044	486 888	259 025

28. Transactions with associated persons

Subsidiary	Type of transaction		Income from subsidiaries		Payments to subsidiaries		Debts of subsidiaries		Credits to subsidiaries	
			LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
OOO Saldus	debt and sales of ready production	2011	272	387	0	0	124 558	177 230	0	0
		2012	331	471	0	0	105 980	150 796	0	0
OOO DOK Nr.3	debt and sales of ready production	2011	18 854	26 827	102 087	145 257	827 562	1 177 515	0	0
		2012	15 800	22 481	71 616	101 900	159 606	227 099	0	0
SIA Pakuļu sporta bāze	debt and sales of ready production	2011	6 624	9 425	14 623	20 807	139 504	198 496	0	0
		2012	7 118	10 128	14 580	20 745	23 666	33 674	0	0
SIA SEZ Laskana	debt, dividends and sales of ready production	2011	5 174	7 362	0	0	384	546	0	0
		2012	29 789	42 386	0	0	0	0	0	0
SIA Saldus MRU	debt, dividends and sales of ready production	2011	73 739	104 921	286 714	407 957	9 992	14 217	6 030	8 580
		2012	48 618	69 177	165 654	235 704	9 253	13 166	73 187	104 136

2011	104 663	148 922	403 424	574 021	1 102 000	1 568 005	6 030	8 580
2012	101 656	144 643	251 850	358 350	930 525	1 324 018	73 187	104 136

29. Expenditures due to the environment protection

The basic economic activity of the Holding is production of timber. As a wrapping material is used polyethylene plastic. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related to financial losses and significant loss of funds arising from penalty fee payments, there has been concluded agreement with Green Belt Ltd. on collection, transportation, recycling and regeneration of used wrapping material so that it corresponds with the requirements of normative acts, planning and organization of the said work. During maintenance work various oil filters and oils are replaced. They are collected in special places and then handed over to BAO Ltd. on which there has been concluded a special agreement on collection of hazardous waste. In this way the Holding meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, int.al. unplanned taxes and decreased ecological risks in all objects.

30. Financial instruments

The main financial instruments of the Holding are granted and received short-term loans, money, short-term deposits and financial lease. The main objective of these financial instruments is to secure the financing of Holding's economic activity. Also, the holding comes in touch with some other financial instruments, for example, debts of buyers and customers and debts of other debtors, debts to suppliers and constructors and other debtors which directly arise from its economic activity.

Financial risks

The main financial risks related to the Holding's financial instruments are: credit risk, currency risk, interest risk and liquidity risk.

Credit risk

The parent company of the Holding and the Holding itself is subjected to credit risks which arise from the debts of buyers and customers, short and long-term loans.

The Holding controls its credit risks by constantly estimating the history of how debtors pay back their debts and by establishing crediting conditions for each customer separately. Besides, the company constantly monitors the reminders of debtors' debts in order to decrease the possible of arising of unrecoverable debts. The Holding does not possess a significant concentration of credit risks towards a particular partner or similar transactions with a group of partners.

Foreign currency risk

To the financial assets which are under foreign currency risk belong money and its equivalents, debts of buyers and customers, advance payments for construction work, short-term loans, debts to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The holding does not use any financial instruments to administrate currency fluctuations risks.

Interest risk

The companies which belong to the Holding are subjected to the interest risk; mainly they are loans from crediting institutions and leasing companies.

The management of the Holding think that the financial assets and liabilities of the Holding on December 31, 2012 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

Liquidity risk

The Holding is controlling its liquidity risk by securing relevant financing, by using credit lines and loans granted by the bank and its parent company, by planning terms of paying back loans, by establishing and analyzing cash flows of the next periods arising from existing and planned loans and interest fees due. The system on how to prepare the Holding's budget is very useful and helpful in the process of management and control of liquidity risks.

Real value

All financial assets and liabilities of the Holding which are not shown in their real value- money, debtors, other debtors, received and granted loans, debts to suppliers and contractors and the balance value of other debts correspond with their real value.

31. Events after the year of account

Except from what was said in the management statement in the period from the last day of the year of account until the date of signing this financial statement there have not occurred any events due to which there should have been done any amendments or corrections in this financial statement.

Auditor's statement

SIA "Zvērinātas revidentes S. Koļesņikovas birojs"

Vienotais reģistrācijas Nr. 40002024395

Zvērinātu revidentu komercsabiedrības licence Nr.127

Torņakalna iela 28, Rīga, LV-1004. Tālr.67285801, mob. tālr. 29235573, E- pasts: sveta.ars @ ml.lv

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Saldus mežrūpniecība

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Saldus mežrūpniecība (the Parent Company) and its subsidiaries (hereinafter – the Group), set out on pages 6 to 30 of the accompanying 2012 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated management report for the year ended 31 December 2012 (set out on page 4 of the accompanying 2012 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2012.

Zvērinātas revidentes S.Koļesņikovas birojs SIA

Audit company licence No. 127

Svetlana Koļesņikova

Certified auditor

Certificate No. 22

Member of the Board



Rīga,

30. April 2013