

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 9 MONTHS OF 2012 (UNAUDITED)

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

Saldus, 2012

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Rīga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Merkalns (<i>Jānis Mierkalns</i>) – member of the Board 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 Gunvaldis Vesmins (<i>Gunvaldis Vēsmiņš</i>) – 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 – September 30, 2012
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-A
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – September 30, 2012
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-A
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – September 30, 2012

Management announcement

To Report of economic activity for the 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.

Profit of A/s „Saldus mežrūpniecība” for the first 9 month of 2012 are 1 070 196 LVL at the net turnover of 20 224 360 LVL, which means profit on one share issued of 2.76 LVL.

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

Forecasts for financial statments and operational plans of 2012

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

Business and financial risk management policy

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

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

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economic activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks.

November 30, 2012

Board:

Jānis Bertrāns
Chairman of board

Jānis 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 30 September 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.

Profit or loss calculation

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Net turnover	20 224 360	19 222 349	28 776 672	27 350 939
Production costs of the sold production	-18 611 643	-17 886 882	-26 481 982	-25 450 740
Gross profit	1 612 717	1 335 467	2 294 690	1 900 198
Selling costs	-459 728	-1 081 786	-654 134	-1 539 243
General administration costs	-122 974	-105 251	-174 976	-149 759
Other income from company's economic activity	541 228	478 016	770 098	680 155
Other expenditures from company's economic activity	-384 345	-336 268	-546 874	-478 466
Profit or loss from economic activity	1 186 898	290 178	1 688 804	412 886
Other interest income and the like income	1 109	0	1 578	0
Other interest payments and the like payments	-108 313	-103 168	-154 116	-146 795
Profit or loss before extraordinary items and taxes	1 079 694	187 010	1 536 266	266 091
Other taxes	-9 498	-10 712	-13 514	-15 242
Profit or (loss)	1 070 196	176 298	1 522 752	250 849
Profit/loss on share	2.76	0.46	3.93	0.65
cents per share/EUR per share				

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Balance sheet

ASSETS				
	30.09.2012	31.12.2011	30.09.2012	31.12.2011
	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trademarks and the like items	5 177	10 114	7 366	14 391
TOTAL	5 177	10 114	7 366	14 391
Fixed assets				
Land, premises and buildings	3 406 679	3 506 275	4 847 268	4 988 980
Equipment and machinery	7 246 328	3 125 983	10 310 596	4 447 873
Other fixed assets	57 953	51 232	82 460	72 897
Unfinished constructions	445 205	88 109	633 470	125 368
Advance payments for fixed assets	25 075	3 335 699	35 679	4 746 272
TOTAL	11 181 240	10 107 298	15 909 471	14 381 389
Biological assets	639 708	677 492	910 222	963 984
Long-term financial investments				
Participation in the capital of related companies	721 133	415 142	1 026 080	590 694
Loans to the related companies	596 130	832 442	848 217	1 184 458
Deferred company's income tax	25 030	25 030	35 614	35 614
TOTAL	1 342 293	1 272 614	1 909 911	1 810 767
TOTAL LONG-TERM INVESTMENTS	13 168 418	12 067 518	18 736 971	17 170 531
CURRENT ASSETS				
Stocks				
Raw materials, direct materials, auxiliary materials	28 374	13 858	40 373	19 718
Biological assets	98 348	399 707	139 937	568 732
Unfinished production	1 461 603	1 248 415	2 079 674	1 776 335
Finished production and goods for sale	317 185	566 134	451 314	805 536
Advance payments for goods	17 153	17 153	24 407	24 407
TOATL	1 922 663	2 245 267	2 735 703	3 194 727
Noncurrent assets held for sale				
Fixed assets held for sale	62 253	89 654	88 578	127 566
Debtors				
Debts of buyers and customers	497 626	227 536	708 058	323 755
Debts of subsidiaries	265 806	240 056	378 208	341 569
Other debtors	70 198	69 044	99 883	98 241
Expenditures of the next periods	59 804	33 239	85 093	47 295
TOTAL	893 434	569 875	1 271 242	810 859
Money and its equivalents	77 301	4 531	109 989	6 447
TOTAL CURRENT ASSETS	2 955 651	2 909 327	4 205 512	4 139 599
TOTAL ASSETS	16 124 069	14 976 845	22 942 483	21 310 131

The annex is an integral part of this financial statement.

Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Balance sheet (continuation)

LIABILITIES				
	30.09.2012	31.12.2011	30.09.2012	31.12.2011
	LVL	LVL	EUR	EUR
Shareholders'equity				
Share capital	387 136	387 136	550 845	550 845
Increase of price of the issue of shares	1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments	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	434 160	-100 796	617 754	-143 420
Retained earnings from the year of account	1 070 196	534 956	1 522 752	761 174
Total shareholders'equity	5 319 056	4 248 860	7 568 335	6 045 583
Other reservs	86 967	86 967	123 743	123 743
TOTAL	86 967	86 967	123 743	123 743
Long-term liabilities				
Long-term loans from credit institutions	3 756 577	3 846 226	5 345 128	5 472 687
Long-term part of financial lease liabilities	0	7 415	0	10 551
Other creditors	3 385 359	0	4 816 932	0
Long-term part of incomes from next periods	628 058	764 561	893 646	1 087 872
TOTAL	7 769 994	4 618 202	11 055 705	6 571 109
Short-term liabilities				
Short-term loans from credit institutions	130 370	130 370	185 500	185 500
Short-term part of financial lease	17 823	130 786	25 360	186 092
Debts to suppliers and contractors	2 329 955	4 408 474	3 315 227	6 272 693
Accrued liabilities	49 370	43 393	70 247	61 743
Taxes payable	157 342	137 749	223 877	195 999
Other creditors	81 104	990 000	115 401	1 408 643
Incomes from the next periods short-term part	182 088	182 044	259 088	259 025
TOTAL	2 948 052	6 022 816	4 194 700	8 569 695
Total liabilities	10 718 046	10 641 018	15 250 406	15 140 805
Total shareholders'equity and liabilities	16 124 069	14 976 845	22 942 483	21 310 131

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Cash flow statement

	30.09.2012	31.12.2011	30.09.2012	31.12.2011
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	1 070 196	434 738	1 522 752	618 576
wear and tear of fixed assets and intangible investments (+)	729 387	672 256	1 037 824	956 534
elimination of fixed assets and intangible investments	0	-95 104	0	-135 321
revaluation of biological assets	0	-103 070	0	-146 655
Accruals (except accruals for doubtful debts)	0	-32 560	0	-46 329
profit (-) or loss (+) from fluctuations of exchange rate	0	-27 635	0	-39 321
Interest income	0	-25 750	0	-36 639
Income from finansation recognition	-136 459	-91 925	-194 164	-130 797
Interest expenditure	-82 495	124 054	-117 380	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	1 580 629	855 004	2 249 033	1 216 561
increase (+) or decrease (-) of debtors debt	-323 559	169 100	-460 383	240 608
increase (+) or decrease (-) of the reserves of accruals	350 005	1 389 120	498 012	1 976 540
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	423 514	1 004 486	602 606	1 429 255
Gross cash flow from basic activity	2 030 589	3 417 710	2 889 268	4 862 963
Expenditures to pay interest payments	82 495	-123 351	117 380	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-15 774	0	-22 444
Net cash flow from basic activity	2 113 084	3 278 585	3 006 648	4 665 006
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	-26 885	15 112	-38 254	21 502
Acquisition of fixed assets and intangible investments	-1 411 997	-3 315 848	-2 009 090	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	-359 511	-1 219 530	-511 537	-1 735 235
Loans issued	-69 679	-73 319	-99 144	-104 324
Net cash flow from investments	-1 868 071	-4 593 585	-2 658 026	-6 536 083
III. Cash flow from financing activities				
Recieved loans	0	1 043 466	0	1 484 718
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-89 649	-130 370	-127 559	-185 500
Expenditures for redemption of asset that was hired	-120 378	-84 049	-171 282	-119 591
Cash flow from financing activities	-210 027	1 310 943	-298 841	1 865 304
IV. Fluctuations of exchange rate	0	52	0	74
V. Net cash flow of the year of account increase (+), decrease (-)	34 986	-4 005	49 780	-5 699
VI. Money and its equivalents balance at the beginning of the year of account	4 531	8 536	6 447	12 146
VII. Money and its equivalents balance at the end of the year of account	39 517	4 531	56 228	6 447

The annex is an integral part of this financial statement
Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Statement on the changes in own capital

	Share capital	Share premium	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital
	LVL	LVL	LVL	LVL		LVL	LVL
December 31, 2010	387 136	1 987	802 492	2 623 085	61 949	-162 745	3 713 904
Distribution of profit of the year 2010	0	0	0	0	-162 745	162 745	0
Profit of the year of account	0	0	0	0	0	534 956	534 956
December 31, 2011	387 136	1 987	802 492	2 623 085	-100 796	534 956	4 248 860
Distribution of profit of the year 2011	0	0	0	0	534 956	-534 956	0
Profit of the year of account	0	0	0	0	0	1 070 196	1 070 196
September 30, 2012	387 136	1 987	802 492	2 623 085	434 160	1 070 196	5 319 056
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2010	550 845	2 827	1 141 843	3 732 314	88 145	-231 565	5 284 409
Distribution of profit of the year 2010	0	0	0	0	-231 565	231 565	0
Profit of the year of account	0	0	0	0	0	761 174	761 174
December 31, 2011	550 845	2 827	1 141 843	3 732 314	-143 420	761 174	6 045 583
Distribution of profit of the year 2011	0	0	0	0	761 174	-761 174	0
Profit of the year of account	0	0	0	0	0	1 522 752	1 522 752
September 30, 2012	550 845	2 827	1 141 843	3 732 314	617 754	1 522 752	7 568 335

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Annex to the financial statement

1. Corporative information

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

2. Important accounting principles

Basis of preparation

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

The financial statements of JSC „Saldus mežrūpniecība have been prepared in accordance with the Law of the Republic of Latvia on Annual Reports applicable in the reporting year.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2012 through 30 September 2012.

Use of calculations (continuation)

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

Decrease of the value of assets

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

Foreign currency translation

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

Currency exchange rates established by the Bank of Latvia:.

	30.09.2012	31.12.2011
	Ls	Ls
1 RUB	0.0175	0.0170
1 EUR	0.702804	0.702804

Intangible investment

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

Intangible assests are accounted for their cost value which is depreciated for the useful life of assets on a sraight line basis. Should any events or conditions indicate that accounting value of intangible assets be non-recoverable, the value of respective intangible assets is revalued in order to establish decrease of accounting value of intangible assets. Losses resulting from decrease of value are accounted when the accounting value of intangible assets increases the recoverable amount.

Software licences used in the company afre accounted for their cost value less depreciation accrued.

Depreciation is calculated for the whole period of useful life by a stright line method. Costs associated with maintenance of software are accounted as costs in the income statement.

Property, plant and equipment

Depreciation is calculated starting from the next month following launch of assets for use or operation. Depreciation is calculated separately for each part of property, plant and equipment the costs of which are significant against total costs of this asset. When property, plant and equipment is sold or depreciated, the initial cost and depreciation accrued is excluded from accounting and loss or profit from sale of assets is reflected in the income statement.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	10-20 years
Equipment and machinery	2-10 years
Forestry equipment	3- 5 years
Timber processing lines	3-10 years
Other property, plant and equipment	2-10 years
Data processing and storage equipment, software	2-5 years

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Construction in progress represents assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2011 applying discount rate of 6%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2011. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

Reserves

Unfinished products

Reserves are accounted in their lowest cost value and net selling value. Cost is calculated by applying the FIFO method- first in, first out. Net selling value is the calculated selling price which is normally used in business by subtracting the expenditures needed to finish and sell products.

Raw materials are accounted in their purchase costs.

Finished and unfinished products are accounted in their direct costs (raw materials and labour) by adding indirect expenditures needed for their production (salaries, electricity, wear and tear and other related costs which would be used in usual production volumes).

Finished products are accounted in their lowest cost or net selling value. Net selling value is the calculated selling price in normal business activity by subtracting expenditures which will be needed to finish and sell the products.

The company regularly estimates if the value of reserves has not decreased due to aging or damage. Corresponding loss is included in the profit or loss calculation as production costs of sold products. When damaged products are physically destroyed, the value of reserves and the value of appropriate reserves are written off.

Debts of buyers and customers

Debts of buyers and customers in the balance sheet are shown according to their initial amount except for reserves for insecure debts. Reserves for insecure debts are calculated when it is unlikely that the whole amount of debt could be recovered. Debts are written off when the recovery of it is believed impossible.

Money and its equivalents

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

Accruals

Accruals are acknowledged if the Holding has an obligation (legal or arising from practise) caused by a past event or if there is a probability that in order to meet the liabilities the Holding will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Holding anticipates that expenditures needed to make accruals will be fully or partly paid back, refund of these expenditures is acknowledged as a separate asset only when it is practically clear that these expenditures will be refunded. Expenditures related to accruals in the profit or loss calculation are shown, except for the sums which will be needed to reimburse expenditures.

Credits and loans

Credits and loans initially are shown in their initial value, which is calculated by subtracting or adding to the real value of credit or loan expenditures related to the receiving or granting the loan.

Lease

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income as interest payments.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term and are accounted in the income statement for the whole lease period according to straight-line basis.

Income recognition

Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:

Rendering of services

Company income is mainly derived from rendering of transport services, and timber processing related services. Income from provision of services is accounted according to the volume of respective service rendered. Revenue is recognised in the period when the services are rendered.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is when the Company has delivered products to the buyer and the buyer has accepted products according to the contract provisions and satisfactory evidence is acquired as to receipt of debtors receivables.

Interest

Interest is recognised according to savings method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Income from lease

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% set in legislative acts of the Republic of Latvia on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as temporary difference in interest or securities in excess of set limits and tax losses carried forward for the subsequent five years. Asset of deferred corporate income tax is only reflected in the financial statements if sufficient evidence is acquired as to the planned recoverability of it.

Associated persons

Associated persons are Holding's parent company's subsidiary companies and shareholders who can significantly influence the activity of the Holding's parent company, the members of council and board, their close relatives and companies in which the said persons have significant impact or control.

Possible liabilities and assets

In this financial statement the possible liabilities are not acknowledged. As liabilities they are acknowledged only when the possibility that funds will be spent becomes pretty plausible. Possible assets in this financial statement are not acknowledged, but they are shown only when plausibility that economic gains related to a transaction will reach the Holding is pretty grounded.

Share capital

Company is a joint stock company. Company share capital is dividend in common shares. All shares are denominated and are dematerialised.

Accruals and deferred liabilities

Accrual and deferred liabilities are accounted for cost and expense to be recognised at the moment of occurrence.

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	
	30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	4 808 832	6 733 596	14 591 610	18 318 723	823 918	848 622	20 224 360	25 900 941
Product costs of sold products	-3 642 868	-6 000 254	-14 188 746	-17 623 971	-780 029	-567 153	-18 611 643	-24 191 378
Selling cost	-454 126	-649 068	-5 602	-11 717	0	-66 169	-459 728	-726 954
General administration cost	-3 257	-5 922	-11 240	-12 781	-108 477	-194 461	-122 974	-213 164
Other income/expenditures from economic activity	3 202	-19 099	305 527	-111 053	-151 846	3 459	156 883	-126 693
Segment profit	711 783	59 253	691 549	559 201	-216 434	24 298	1 186 898	642 752
Financial expenditure	-4 436	-6 581	-13 137	-19 592	-89 631	-181 841	-107 204	-208 014
Company income tax (undistributable)	0	0	0	0	0	113 877	0	113 877
Other taxes	0	0	0	0	-9 498	-8 640	-9 498	-13 659
Net result	707 347	52 672	678 412	539 609	-315 563	-52 306	1 070 196	534 956
Segment assets	3 833 888	4 034 535	11 633 304	10 459 905	656 877	448 282	16 124 069	14 942 722
Segment liabilities	3 155 974	3 137 972	12 292 323	11 057 614	675 773	747 136	16 124 069	14 942 722

	Logging		Timber processing		Other		Total	
	30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011	30.09.2012	31.12.2011
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	6 842 351	9 581 044	20 761 991	26 065 195	1 172 330	1 207 480	28 776 672	36 853 719
Product costs of sold products	-5 183 334	-8 537 592	-20 188 767	-25 076 652	-1 109 881	-806 986	-26 481 982	-34 421 230
Selling cost	-646 163	-923 541	-7 971	-16 672	0	-94 150	-654 134	-1 034 362
General administration cost	-4 634	-8 426	-15 993	-18 186	-154 349	-276 693	-174 976	-303 305
Other income/expenditures from economic activity	4 556	-27 175	434 726	-158 014	-216 057	4 922	223 224	-180 268
Segment profit	1 012 776	84 309	983 986	795 671	-307 958	34 573	1 688 804	914 554
Financial expenditure	-6 312	-9 364	-18 692	-27 877	-127 533	-258 736	-152 538	-295 977
Company income tax (undistributable)	0	0	0	0	0	162 032	0	162 032
Other taxes	0	0	0	0	-13 514	-12 294	-13 514	-19 435
Net result	1 006 464	74 946	965 293	767 794	-449 006	-74 425	1 522 752	761 174
Segment assets	5 455 132	5 740 626	16 552 700	14 883 104	934 651	637 848	22 942 483	21 261 578
Segment liabilities	4 490 546	4 464 932	17 490 399	15 733 567	961 538	1 063 079	22 942 483	21 261 578

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 LVL	2011 LVL	2012 EUR	2011 EUR
Income from sales, int. Al.	19 230 853	24 437 664	27 363 039	34 771 663
Latvia	19 230 853	24 437 664	27 363 039	34 771 663
the EU countries				
Other countries				
Income from rendering of services, int. Al.	993 507	1 371 308	1 413 633	1 951 195
Latvia	993 507	1 371 308	1 413 633	1 951 195
the EU countries				
Other countries				
	20 224 360	25 808 972	28 776 672	36 722 859