

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2012 (UNAUDITED)

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

Saldus, 2013

CONTENT

Information about the Company	3
Management announcement	4
Statement of Management Responsibility	4
Profit or loss calculation	6
Balance sheet	6
Balance sheet (continuation)	8
Cash flow statement	8
Statement on the changes in own capital	10
Annex to the financial statement	10

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 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 – December 31, 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-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 (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 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 year 2012 are 1 316 566 LVL at the net turnover of 26 662 249 LVL, which means profit on one share issued of 3.40 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 2013

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.

February 28, 2013

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 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.

Profit or loss calculation

	31.12.2012 LVL	31.12.2011 LVL	31.12.2012 EUR	31.12.2011 EUR
Net turnover	26 662 249	25 900 941	37 936 963	36 853 719
	-23 812	-24 191	-33 882	-34 421
Production costs of the sold production	775	378	526	230
Gross profit	2 849 474	1 709 563	4 054 436	2 432 489
Selling costs	-1 306 383	-726 954	-1 858 816	-1 034 362
General administration costs	-169 224	-213 164	-240 784	-303 305
Other income from company's economic activity	595 799	331 861	847 746	472 196
Other expenditures from company's economic activity	-508 754	-458 554	-723 892	-652 464
Profit or loss from economic activity	1 460 912	642 752	2 078 691	914 554
Other interest income and the like income	6 708	28 103	9 545	39 987
Other interest payments and the like payments	-138 462	-236 117	-197 014	-335 964
Profit or loss before extraordinary items and taxes	1 329 158	434 738	1 891 221	618 576
Company's income tax				
Company's deferred income tax		113 877	0	162 032
Other taxes	-12 592	-13 659	-17 917	-19 435
Profit or (loss)	1 316 566	534 956	1 873 305	761 174
Profit/loss on share				
cents per share/EUR per share	3,40	1,38	4,84	1,97

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		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		4 333	10 114	6 165	14 391
TOTAL		4 333	10 114	6 165	14 391
Fixed assets				0	
Land, premises and buildings		3 378 883	3 506 275	4 807 717	4 988 980
Equipment and machinery		7 021 772	3 125 983	9 991 081	4 447 873
Other fixed assets		62 084	51 232	88 338	72 897
Unfinished constructions		950 103	88 109	1 351 875	125 368
Advance payments for fixed assets		25 604	3 335 699	36 431	4 746 272
TOTAL		11 438 446	10 107 298	16 275 442	14 381 389
Biological assets		719 301	677 492	1 023 473	963 984
Long-term financial investments				0	
Participation in the capital of related companies		709 234	415 142	1 009 149	590 694
Loans to the related companies		629 646	832 442	895 906	1 184 458
Deferred company's income tax		25 030	25 030	35 614	35 614
TOTAL		1 363 910	1 272 614	1 940 669	1 810 767
TOTAL LONG-TERM INVESTMENTS		13 525 990	12 067 518	19 245 750	17 170 531
CURRENT ASSETS				0	
Stocks				0	
Raw materials, direct materials, auxiliary materials		39 074	13 858	55 597	19 718
Biological assets		251 989	399 707	358 548	568 732
Unfinished production		1 523 199	1 248 415	2 167 317	1 776 335
Finished production and goods for sale		398 620	566 134	567 185	805 536
Advance payments for goods		17 153	17 153	24 407	24 407
TOTAL		2 230 035	2 245 267	3 173 054	3 194 727
Noncurrent assets held for sale				0	
Fixed assets held for sale		62 203	89 654	88 507	127 566
Debtors				0	
Debts of buyers and customers		928 331	227 536	1 320 896	323 755
Debts of subsidiaries		265 806	240 056	378 208	341 569
Other debtors		107 550	69 044	153 030	98 241
Expenditures of the next periods		42 499	33 239	60 471	47 295
TOTAL		1 344 186	569 875	1 912 604	810 859
Money and its equivalents		10 432	4 531	14 843	6 447
TOTAL CURRENT ASSETS		3 646 856	2 909 327	5 189 009	4 139 599
TOTAL ASSETS		17 172 846	14 976 845	24 434 758	21 310 131

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Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Balance sheet (continuation)

LIABILITIES				
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Shareholders'equity	LVL	LVL	EUR	EUR
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	1 316 566	534 956	1 873 305	761 174
Total shareholders'equity	5 565 426	4 248 860	7 918 888	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	3 681 736	3 846 226	5 238 638	5 472 687
Long-term part of financial lease liabilities	0	7 415	0	10 551
Other creditors	4 025 359	0	5 727 570	0
Long-term part of incomes from next periods	395 725	764 561	563 066	1 087 872
TOTAL	8 102 820	4 618 202	11 529 274	6 571 109
Short-term liabilities				
Short-term loans from credit institutions	736 398	130 370	1 047 800	185 500
Short-term part of financial lease	7 415	130 786	10 551	186 092
Debts to suppliers and contractors	2 021 764	4 408 474	2 876 711	6 272 693
Accrued liabilities	62 628	43 393	89 112	61 743
Taxes payable	170 612	137 749	242 759	195 999
Other creditors	76 585	990 000	108 971	1 408 643
Incomes from the next periods short-term part	342 231	182 044	486 951	259 025
TOTAL	3 417 633	6 022 816	4 862 854	8 569 695
Total liabilities	11 520 453	10 641 018	16 392 128	15 140 805
Total shareholders'equity and liabilities	17 172 846	14 976 845	24 434 758	21 310 131

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Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gatis Zommers
Member of board

Cash flow statement

	31.12.2012 LVL	31.12.2011 LVL	31.12.2012 EUR	31.12.2011 EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	1 316 566	434 738	1 873 305	618 576
wear and tear of fixed assets and intangible investments (+)	1 047 886	672 256	1 491 008	956 534
elimination of fixed assets and intangible investments	383	-95 104	544	-135 321
revaluation of biological assets	-41 809	-103 070	-59 489	-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	-208 649	-91 925	-296 881	-130 797
Interest expenditure	-109 694	124 054	-156 080	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	2 004 683	855 004	2 852 407	1 216 561
increase (+) or decrease (-) of debtors debt	-774 311	169 100	-1 101 745	240 608
increase (+) or decrease (-) of the reserves of accruals	42 683	1 389 120	60 732	1 976 540
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	777 332	1 004 486	1 106 044	1 429 255
Gross cash flow from basic activity	2 050 387	3 417 710	2 917 438	4 862 963
Expenditures to pay interest payments	109 694	-123 351	156 080	-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	2 160 081	3 278 585	3 073 518	4 665 006
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	0	15 112	0	21 502
Acquisition of fixed assets and intangible investments	-4 821 738	-3 315 848	-6 860 715	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	2 448 102	-1 219 530	3 483 335	-1 735 235
Loans issued	-91 296	-73 319	-129 903	-104 324
Net cash flow from investments	-2 464 932	-4 593 585	-3 507 282	-6 536 083
III. Cash flow from financing activities				
Recieved loans	571 908	1 043 466	813 752	1 484 718
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-130 370	-130 370	-185 500	-185 500
Expenditures for redemption of asset that was hired	-130 786	-84 049	-186 092	-119 591
Cash flow from financing activities	310 752	1 310 943	442 160	1 865 304
IV. Fluctuations of exchange rate	0	52	0	74
V. Net cash flow of the year of account increase (+), decrease (-)	5 901	-4 005	8 396	-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	10 432	4 531	14 843	6 447

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of boardJānis Mierkalns
Vice-chairmanGatis 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	1 316 566	1 316 566
December 31, 2012	387 136	1 987	802 492	2 623 085	434 160	1 316 566	5 565 426
	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	1 873 305	1 873 305
December 31, 2012	550 845	2 827	1 141 843	3 732 314	617 754	1 873 305	7 918 888

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 31 December 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:.

	31.12.2012	31.12.2011
	Ls	Ls
1 RUB	0.0174	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 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.

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	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6 373 872	6 733 596	18 709 904	18 318 723	1 578 473	848 622	26 662 249	25 900 941
Product costs of sold products	-5 049 461	-6 000 254	-17 502 963	-17 623 971	-1 260 351	-567 153	-23 812 775	-24 191 378
Selling cost	-457 080	-649 068	-2 121	-11 717	-847 182	-66 169	-1 306 383	-726 954
General administration cost	-4 416	-5 922	-13 326	-12 781	-151 482	-194 461	-169 224	-213 164
Other income/expenditures from economic activity	-8 812	-19 099	-108 916	-111 053	204 773	3 459	87 045	-126 693
Segment profit	854 103	59 253	1 082 578	559 201	-475 769	24 298	1 460 912	642 752
Financial expenditure	-5 565	-6 581	-18 438	-19 592	-107 751	-181 841	-131 754	-208 014
Company income tax (undistributable)	0	0	0	0	0	113 877	0	113 877
Other taxes	0	0	0	-5 019	-12 592	-8 640	-12 592	-13 659
Net result	848 538	52 672	1 064 140	534 590	-596 112	-52 306	1 316 566	534 956
Segment assets	4 105 337	4 034 535	12 050 833	10 459 905	1 016 676	448 282	17 172 846	14 942 722
Segment liabilities	3 641 475	3 137 972	12 622 455	11 057 614	908 916	747 136	17 172 846	14 942 722

	Logging		Timber processing		Other		Total	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 069 203	9 581 044	26 621 795	26 065 195	2 245 965	1 207 480	37 936 963	36 853 719
Product costs of sold products	-7 184 736	-8 537 592	-24 904 473	-25 076 652	-1 793 318	-806 986	-33 882 526	-34 421 230
Selling cost	-650 366	-923 541	-3 018	-16 672	-1 205 431	-94 150	-1 858 816	-1 034 362
General administration cost	-6 283	-8 426	-18 961	-18 186	-215 539	-276 693	-240 784	-303 305
Other income/expenditures from economic activity	-12 538	-27 175	-154 974	-158 014	291 366	4 922	123 854	-180 268
Segment profit	1 215 279	84 309	1 540 370	795 671	-676 958	34 573	2 078 691	914 554
Financial expenditure	-7 918	-9 364	-26 235	-27 877	-153 316	-258 736	-187 469	-295 977
Company income tax (undistributable)	0	0	0	0	0	162 032	0	162 032
Other taxes	0	0	0	0	-17 917	-12 294	-17 917	-19 435
Net result	1 207 361	74 946	1 514 135	767 794	-848 191	-74 425	1 873 305	761 174
Segment assets	5 841 369	5 740 626	17 146 790	14 883 104	1 446 600	637 848	24 434 758	21 261 578
Segment liabilities	5 181 352	4 464 932	17 960 136	15 733 567	1 293 271	1 063 079	24 434 758	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.	25 308 039	24 437 664	36 010 095	34 771 663
Latvia	25 308 039	24 437 664	36 010 095	34 771 663
the EU countries				
Other countries				
Income from rendering of services, int. Al.	1 145 516	1 371 308	1 629 922	1 951 195
Latvia	1 145 516	1 371 308	1 629 922	1 951 195
the EU countries				
Other countries				
Financing of the EU structural funds	208 694	91 969	296 945	130 860
	26 662 249	25 900 941	37 936 963	36 853 718