

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2012 (UNAUDITED)

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Saldus, 2013

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Merkalns (<i>Jānis Mierkalns</i>) – member of the Board 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 Vēsminš</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>)
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 Koļesņikova 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” for the year 2012 from economic activities profits is 1 189 565 LVL, whereby Net turnover is 26 991 823 LVL, which comprise profits per emitted share 3.07 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.

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.

Consolidated income statement

	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	LVL	LVL	EUR	EUR
Net turnover	26 991 823	25 904 280	38 405 904	36 858 470
Production costs of the sold production	-24 113 255	-24 229 204	-34 310	-34 475
Gross profit	2 878 568	1 675 076	4 095 833	2 383 418
Selling costs	-1 368 509	-767 403	-1 947 213	-1 091 916
General administration costs	-237 581	-250 155	-338 047	-355 938
Other income from company's economic activity	701 857	333 222	998 653	474 132
Other expenditures from company's economic activity	-620 366	-505 257	-882 701	-718 916
Profit or loss from economic activity	1 353 969	485 483	1 926 524	690 780
Other interest income and the like income	6 814	18 338	9 695	26 093
Other interest payments and the like payments	-158 426	-277 533	-225 420	-394 894
Profit or loss before extraordinary items and taxes	1 202 357	226 288	1 710 800	321 979
Company's income tax				
Company's deferred income tax		113 877	0	162 032
Other taxes	-12 792	-13 816	-18 201	-19 658
Profit or (loss)	1 189 565	326 349	1 692 599	464 353
Profit/loss on share	3,07	0,84	4,37	1,20
lats 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

Consolidated 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	20 647	6 165	29 378
Goodwill	227 097	201 034	323 130	286 046
TOTAL	231 430	221 681	329 295	315 424
Fixed assets				
Land, premises and buildings	3 920 723	4 056 025	5 578 686	5 771 204
Equipment and machinery	7 173 123	3 221 163	10 206 435	4 583 302
Other fixed assets	68 238	51 333	97 094	73 040
Unfinished constructions	1 028 975	227 948	1 464 100	324 341
Advance payments for fixed assets	25 604	3 335 699	36 431	4 746 272
TOTAL	12 216 663	10 892 168	17 382 745	15 498 159
Biological assets	719 301	677 492	1 023 473	963 984
Long-term financial investments				
Deferred company's income tax	26 240	26 212	37 336	37 296
TOTAL	26 240	26 212	37 336	37 296
TOTAL LONG-TERM INVESTMENTS	13 193 634	11 817 553	18 772 850	16 814 863
CURRENT ASSETS				
Stocks				
Raw materials, direct materials, auxiliary materials	201 682	175 916	286 968	250 306
Biological assets	251 989	399 707	358 548	568 732
Unfinished production	1 551 610	1 248 415	2 207 742	1 776 335
Finished production and goods for sale	416 003	612 075	591 919	870 904
Advance payments for goods	76 786	35 235	109 257	50 135
TOATL	2 498 070	2 471 348	3 554 433	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	992 702	300 057	1 412 488	426 943
Debts of subsidiaries		25 116	0	35 737
Other debtors	124 695	121 568	177 425	172 976
Expenditures of the next periods	258 682	243 708	368 071	346 765
TOTAL	1 376 079	690 449	1 957 984	982 420
Money and its equivalents	24 413	5 026	34 737	7 151
TOTAL CURRENT ASSETS	3 960 765	3 256 477	5 635 661	4 633 549
TOTAL ASSETS	17 154 399	15 074 030	24 408 511	21 448 412

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

Consolidate balance sheet (continuation)

LIABILITIES

	31.12.2012	31.12.2011	31.12.2012	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
Fluctuation of exchange rate	1 407	-36 663	2 002	-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	-73 958	-414 609	-105 233	-589 935
Retained earnings from the year of account	1 189 566	326 349	1 692 600	464 353
Total shareholders'equity	4 931 715	3 689 777	7 017 198	5 250 080
Long-term liabilities				
Long-term loans from credit institutions	3 703 883	4 109 500	5 270 151	5 847 292
Long-term part of financial lease liabilities	0	7 415	0	10 551
Other creditors	4 068 628	55 042	5 789 136	78 318
Accrued liabilities	86 967	86 967	123 743	123 743
Long-term part of incomes from next periods	395 725	764 561	563 066	1 087 872
TOTAL	8 255 203	5 023 485	11 746 096	7 147 775
Short-term liabilities				
Short-term loans from credit institutions	924 733	143 022	1 315 777	203 502
Short-term part of financial lease	7 415	130 786	10 551	186 092
Advance payments received from buyers	0	245 358	0	349 113
Debts to suppliers and contractors	2 304 869	4 464 560	3 279 533	6 352 497
Liabilities provisions	65 601	50 017	93 342	71 168
Taxes payable	178 188	145 003	253 539	206 321
Other creditors	144 444	999 978	205 525	1 422 841
Incomes from the next periods short-term part	342 231	182 044	486 951	259 025
TOTAL	3 967 481	6 360 768	5 645 217	9 050 557
Total liabilities	12 222 684	11 384 253	17 391 313	16 198 333
Total shareholders'equity and liabilities	17 154 399	15 074 030	24 408 511	21 448 412

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

Consolidated 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:	1 189 566	226 288	1 692 600	321 979
wear and tear of fixed assets and intangible investments (+)	1 185 911	685 885	1 687 399	975 926
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	-52	0	-74
Interest income	0	0	0	0
Income from finansation recognition	-208 649	-91 925	-296 881	-130 797
Interest expenditure	-121 783	124 054	-173 281	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	2 003 619	713 516	2 850 893	1 015 242
increase (+) or decrease (-) of debtors debt	-685 630	244 067	-975 564	347 276
increase (+) or decrease (-) of the reserves of accruals	729	1 355 744	1 037	1 929 050
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	802 357	1 075 365	1 141 651	1 530 107
Gross cash flow from basic activity	2 121 075	3 388 692	3 018 018	4 821 674
Expenditures to pay interest payments	121 783	-123 351	173 281	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-16 957	0	-24 128
Net cash flow from basic activity	2 242 858	3 248 384	3 191 299	4 622 034
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	-4 902 238	-3 315 848	-6 975 257	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	2 397 698	-1 216 138	3 411 617	-1 730 408
Loans issued	0		0	0
Net cash flow from investments	-2 504 540	-4 516 874	-3 563 640	-6 426 933
III. Cash flow from financing activities				
Recieved loans	571 908	-194 256	813 752	-276 401
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-195 814	1 043 466	-278 618	1 484 718
Expenditures for redemption of asset that was hired	-131 371	-107 997	-186 924	-153 666
Cash flow from financing activities	244 723	1 223 109	348 209	1 740 327
IV. Fluctuations of exchange rate	36 842	-48 038	52 421	-68 352
V. Net cash flow of the year of account increase (+), decrease (-)	19 882	-93 419	28 290	-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	24 413	5 026	34 737	7 151

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	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			-4 931					-4 931
Distribution of profit of the year 2010						-281 002	237 843	-43 159
Profit of the year of account	0						326 349	326 349
December 31, 2011	387 136	802 492	-36 663	1 987	2 623 085	-414 608	326 349	3 689 778
Fluctuation of exchange rate			38 070			14 301		52 371
Distribution of profit of the year 2011						326 349	-326 349	0
Profit of the year of account	0						1 189 566	1 189 566
December 31, 2012	387 136	802 492	1 407	1 987	2 623 085	-73 958	1 189 566	4 931 715

	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	5 250 081
Fluctuation of exchange rate	0	0	54 169	0	0	20 348	0	74 517
Distribution of profit of the year 2011	0	0	0	0	0	464 353	-464 353	0
Profit of the year of account	0	0	0	0	0	0	1 692 600	1 692 600
December 31, 2012	550 845	1 141 843	2 002	2 827	3 732 314	-105 233	1 692 600	7 017 198

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

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.

Changes in the accounting principles

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

Application of the International Financial Reporting Standards

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

- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs
- IAS 24 Related-Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earning per Share
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities, and Contingent assets
- IAS 38 Intangible assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 41 Agriculture
- IFRS 5 Noncurrent Assets Held for Sales and Discontinued Operations

Use of calculations (continuation)

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

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the ooo Saldus and 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 Łes 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
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 includes as expenditures in the profit/loss statement.

Capital assets

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated

Wear and tear is calculated for the time of their effective use, by applying a linear method:

Buildings, constructions	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 off to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity.

Loan costs

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle IAS 23.

Lease

Financial lease transactions when the Holding is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

Lease of capital assets when practically all risks arising from proprietorship and compensation receives lessor is classified as operative lease. Lease payments then are accounted as expenditures during the whole period of lease and are attributed to the profit or loss calculation in the whole period of lease by using a linear method.

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less.

Share capital

Common shares are classified as own capital. All shares are registered shares and in non-material form.

Profit per share

Profit per share is calculated in the following way: profit of the year of account after taxes is divided with weighted-average number of shares in circulation in the period of account.

Credits and loans

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

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

Accruals

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

Accruals and deferred liabilities

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

Income recognition

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

Incomes from service rendering mainly include transport services related to timber processing.

Incomes from services are recognized and they correspond with the volume of service. Incomes from services are recognized in the period when they were rendered.

If it is not possible to reasonably estimate the outcome of deal, income is recognized only in the amount in which recognized expenditures could be recovered.

Sale of goods

Incomes are recognized when the Holding has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Holding has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors' debts.

Interest

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

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

Taxes

Company income tax

The income tax of parent and subsidiary companies of the Holding is calculated by applying the 15% company income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

Deferred company income tax

Deferred company income tax, which has arisen from short-term differences by including particular posts in tax declaration and in this financial statement, is calculated by applying the Liability Tax Allocation Method. The assets and liabilities of the deferred company income tax are established on the basis of tax rates which are to be applied when disappear short-term differences. Main short-term differences arise from different wear and tear rates applied by accounting and taxation needs as well as from particular accruals and tax losses which have been transferred on to the following five years. The assets of deferred company income tax in the financial statement are shown only in the case if their recoverability could be plausibly foreseen.

Possible liabilities and assets

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

Allowances

Parent and subsidiary companies of the Holding pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments. Parent company does not have to follow additional legal or other liabilities or to make additional payments if the state funded pension schemes or private pension plans can not meet their liabilities towards employees. Social insurance and pension plan payments as well as health insurance payments are included in the expenditures in the same period when the according payment was made. Pension plan payments and cash flow are similar, and the employer does not account assets or liabilities by accruals method.

Associated persons

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

Events after the end of the year of account

After the year of account, in the financial statement are shown the events which give additional information about the Holding's financial situation on the date of drawing up the balance sheet (correcting events). If the events after the end of the year of account are not correcting, they are shown in the notes of the annex to the financial statement only if they are significant.

3. Segments of the Holding activities

	Logging		Timber processing		Other		Total	
	31.12.2012	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	6 690 481	6 733 596	18 722 689	18 322 062	1 578 653	848 622	26 991 823	25 904 280
Product costs of sold products	-5 348 223	-6 000 254	-17 504 681	-17 661 797	-1 260 351	-567 153	-24 113 255	-24 229 204
Selling cost	-466 619	-649 068	-54 708	-52 166	-847 182	-66 169	-1 368 509	-767 403
General administration cost	-16 096	-12 913	-67 899	-27 781	-153 586	-209 461	-237 581	-250 155
Other income/expenditures from economic activity	-9 699	-34 099	-113 583	-141 395	204 773	3 459	81 491	-172 035
Segment profit	849 844	37 262	981 818	438 923	-477 693	9 298	1 353 969	485 483
Financial expenditure	-6 005	-7 762	-36 882	-67 592	-108 923	-183 841	-151 810	-259 195
Company income tax (undistributable)	0	0	0	0	0	113 877	0	113 877
Other taxes	0	0	0	-5 176	-12 592	-8 640	-12 592	-13 816
Net result	843 839	29 500	944 936	366 155	-599 208	-69 306	1 189 567	326 349
Segment assets	4 252 072	3 919 248	11 899 029	10 657 339	1 003 298	497 443	17 154 399	14 942 722
Segment liabilities	3 804 777	3 467 027	12 452 997	10 250 340	896 626	1 356 663	17 154 399	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	9 519 697	9 581 044	26 639 986	26 069 946	2 246 221	1 207 480	38 405 904	36 858 470
Product costs of sold products	-7 609 836	-8 537 592	-24 906 917	-25 130 473	-1 793 318	-806 986	-34 310 071	-34 475 051
Selling cost	-663 939	-923 541	-77 842	-74 226	-1 205 431	-94 150	-1 947 213	-1 091 916
General administration cost	-22 903	-18 374	-96 612	-39 529	-218 533	-298 036	-338 047	-355 938
Other income/expenditures from economic activity	-13 800	-48 519	-161 614	-201 187	291 366	4 922	115 951	-244 784
Segment profit	1 209 219	53 019	1 397 001	624 531	-679 696	13 230	1 926 524	690 780
Financial expenditure	-8 544	-11 044	-52 478	-96 175	-154 983	-261 582	-216 006	-368 801
Company income tax (undistributable)	0	0	0	0	0	162 032	0	162 032
Other taxes	0	0	0	-7 365	-17 917	-12 294	-17 917	-19 658
Net result	1 200 675	41 975	1 344 523	520 992	-852 596	-98 614	1 692 601	464 353
Segment assets	6 050 154	5 576 587	16 930 793	15 164 027	1 427 565	707 798	24 408 511	21 261 578
Segment liabilities	5 413 710	4 933 135	17 719 018	14 584 920	1 275 783	1 930 358	24 408 511	21 261 578

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.	25 320 824	24 441 003	36 028 287	34 776 414
Latvia	25 308 039	24 437 664	36 010 095	34 771 663
the EU countries				
Other countries	12785	3339		
Income from rendering of services, int. Al.	1 462 305	1 371 308	2 080 673	1 951 195
Latvia	1 145 696	1 371 308	1 630 179	1 951 195
the EU countries				
Other countries	316609			
Financing of the EU structural funds	208 694	91 969	296 945	130 860
	26 991 823	25 904 280	38 405 904	36 858 470