

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2013

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2014

CONTENT

Information about the Company	3
Management announcement	4
Statement of Management Responsibility	5
Consolidated income statement	6
Consolidated balance sheet	7
Consolidate balance sheet (continuation)	8
Consolidated cash flow statement	9
Statement on the changes in own capital	10
Annex to the financial statement	11
Auditor's statement	29

Address: Kuldīgas iela 86c, Saldus LV-3801,
Saldus District., Republic of Latvia
Single registration number: 40003020121

Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Mierkalns (<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 Mierkalns (<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 Martins Knipsis (<i>Mārtiņš Knipšis</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, 2013
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, 2013
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, 2013
Name and address of the Auditor	(Translated from Latvian) Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.22)

Management announcement

To Consolidated report of economic activity for 2013

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 loss of the holding JSC „Saldus mežrūpniecība” of year 2013 from economic activities loss is 183 306 LVL, whereby Net turnover is 30 914 166 LVL, which comprise loss per emitted share 0.47 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 2014

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

Business and financial risk management policy

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

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

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

April 30, 2014

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Statement of Management Responsibility

Management is responsible for preparing financial statements based on the initial accounting records of each year of account, which truly reflects the company's financial position at the end of the year of account, as well as results of operations and cash flows for the period.

The Management confirms that, in preparing this report for the period ending on 31 December 2013, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

Consolidated income statement

	Note	31.12.2013 LVL	31.12.2012 LVL	31.12.2013 EUR	31.12.2012 EUR
Net turnover	4	30 914 166	27 417 706	43 986 895	39 011 881
Production costs of the sold production	5	-30 755 399	-24 908 517	-43 760 990	-35 441 627
Gross profit		158 767	2 509 189	225 905	3 570 254
Selling costs	6	-41 370	-557 079	-58 864	-792 652
General administration costs	7	-279 327	-288 346	-397 447	-410 279
Other income from company's economic activity	8	354 035	167 362	503 746	238 135
Other expenditures from company's economic activity	8	-401 416	-512 464	-571 164	-729 171
Profit or loss from economic activity		-209 311	1 318 662	-297 823	1 876 287
Other interest income and the like income	10	107 874	44 742	153 491	63 662
Other interest payments and the like payments	10	-491 651	-190 975	-699 556	-271 733
Profit or loss before extraordinary items and taxes		-593 088	1 172 429	-843 888	1 668 216
Company's deferred income tax	11	423 939	-209 138	603 211	-297 577
Other taxes	12	-14 157	-12 792	-20 144	-18 201
Profit or (loss)		-183 306	950 499	-260 821	1 352 438

Profit/loss on share **-0,47** **2,46** **-0,67** **3,49**
cents per share/EUR per share

Profit or loss	-183 306	950 499	-260 821	1 352 438
Other comprehensive income for the period	54 421	47 113	77 434	67 036
Total comprehensive income for the period	-128 885	997 612	-183 387	1 419 474

The annex is an integral part of this financial statement

Board :

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Consolidated balance sheet

ASSETS

	Note	31.12.2013 LVL	31.12.2012 LVL	31.12.2013 EUR	31.12.2012 EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like items	13	2 920	9 021	4 155	12 836
Goodwill		275 524	227 096	392 035	323 128
TOTAL		278 444	236 117	396 190	335 964
Fixed assets					
Land, premises and buildings		4 717 745	3 923 558	6 712 746	5 582 720
Equipment and machinery		8 163 415	7 170 990	11 615 493	10 203 400
Other fixed assets		56 491	62 146	80 379	88 426
Unfinished constructions		108 529	991 272	154 423	1 410 453
Advance payments for fixed assets		0	46 025	0	65 488
TOTAL	14	13 046 180	12 193 991	18 563 042	17 350 486
Biological assets					
Long-term financial investments		654 958	719 301	931 921	1 023 473
Investment in associated companies		6 002	0	8 540	0
Deferred tax assets		239 831	1 210	341 249	1 722
TOTAL		245 833	1 210	349 789	1 722
TOTAL LONG-TERM INVESTMENTS		14 225 415	13 150 619	20 240 942	18 711 645
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		1 575 560	1 301 674	2 241 820	1 852 115
Biological assets		346 605	251 989	493 174	358 548
Unfinished production		443 497	445 019	631 039	633 205
Finished production and goods for sale		767 113	436 764	1 091 503	621 459
Advance payments for goods		17 153	81 523	24 407	115 997
TOATL	15	3 149 928	2 516 969	4 481 944	3 581 324
Noncurrent assets held for sale					
Fixed assets held for sale		53 616	62 203	76 289	88 507
Debtors					
Debts of buyers and customers	16	2 786 551	946 264	3 964 905	1 346 412
Corporate income tax receivable		0	25 116	0	35 737
Other debtors	17	28 623	145 861	40 727	207 542
Expenditures of the next periods	18	210 790	236 834	299 927	336 984
TOTAL		3 025 964	1 354 075	4 305 559	1 926 675
Money and its equivalents	19	19 917	24 414	28 339	34 738
TOTAL CURRENT ASSETS		6 249 425	3 957 661	8 892 131	5 631 244
TOTAL ASSETS		20 474 840	17 108 280	29 133 073	24 342 889

*Reclassification of inventories: Raw material (round timber in forest and in sawmill) is reclassified from unfinished goods to raw materials, note 17.

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Consolidate balance sheet (continuation)

LIABILITIES

		31.12.2013	31.12.2012	31.12.2013	31.12.2012
	Note	LVL	LVL	EUR	EUR
Shareholders'equity					
Share capital	20	387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Fluctuation of exchange rate		-3 362	-3 847	-4 784	-5 474
Reserves from revaluation of long-term investments		780 332	802 492	1 110 312	1 141 843
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		908 313	-73 963	1 292 413	-105 240
Retained earnings from the year of account		-183 306	950 499	-260 821	1 352 438
Total shareholders'equity		4 514 185	4 687 389	6 423 107	6 669 554
Long-term liabilities					
Long-term loans from credit institutions	21	9 651 910	3 703 884	13 733 431	5 270 152
Other creditors	24	963 064	4 108 420	1 370 317	5 845 755
Deferred company's income tax		0	184 108	0	261 962
Accured liabilities	25	156 127	109 544	222 149	155 867
Long-term part of incomes from next periods	27	1 428 042	395 725	2 031 921	563 066
TOTAL		12 199 143	8 501 681	17 357 817	12 096 802
Short-term liabilities					
Short-term loans from credit institutions	21	1 221 816	924 733	1 738 488	1 315 777
Short-term part of financial lease	22	0	7 415	0	10 551
Debts to suppliers and contractors		1 969 995	2 314 369	2 803 050	3 293 050
Advance payments received from buyers	26	64 415	91 430	91 654	130 093
Taxes payable	23	89 223	162 677	126 953	231 469
Other creditors	24	73 886	76 399	105 130	108 706
Incomes from the next periods short-term part	27	342 177	342 187	486 874	486 888
TOTAL		3 761 512	3 919 210	5 352 149	5 576 533
Total liabilities		15 960 655	12 420 891	22 709 966	17 673 336
Total shareholders'equity and liabilities		20 474 840	17 108 280	29 133 073	24 342 889

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Consolidated cash flow statement

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	-593 088	1 172 429	-843 888	1 668 216
wear and tear of fixed assets and intangible investments (+)	1 430 586	1 099 021	2 035 540	1 563 766
elimination of fixed assets and intangible investments	4	29	6	41
revaluation of long-term investments	-25 120	-63 130	-35 743	-89 826
revaluation of biological assets	31 835	-233 234	45 297	-331 862
Accruals (except accruals for doubtful debts)	46 583	22 577	66 282	32 124
profit (-) or loss (+) from fluctuations of exchange rate	51 615	-28	73 442	-40
Interest income	0	-23 248	0	-33 079
Income from finansation recognition	1 032 307	-208 693	1 468 841	-296 943
Interest expenditure	188 109	124 055	267 655	176 514
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	2 162 831	1 889 778	3 077 431	2 688 911
increase (+) or decrease (-) of debtors debt	-1 671 889	-640 378	-2 378 884	-911 176
increase (+) or decrease (-) of the reserves of accruals	-623 162	-165 888	-886 680	-236 037
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-3 613 586	780 545	-5 141 670	1 110 615
Gross cash flow from basic activity	-3 745 806	1 864 057	-5 329 802	2 652 314
Expenditures to pay interest payments	-187 394	-124 055	-266 638	-176 514
Net cash flow from basic activity	-3 933 200	1 740 002	-5 596 439	2 475 799
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	63 000	402 273	89 641	572 383
Acquisition of fixed assets and intangible investments	-2 371 991	-2 087 540	-3 375 039	-2 970 302
Expenditures for advance payments for fixed assets and unfinished	0	-285 825	0	-406 692
Net cash flow from investments	-2 308 991	-1 971 092	-3 285 398	-2 804 611
III. Cash flow from financing activities				
Recieved loans	7 391 592	571 908	10 517 288	813 752
Expenditures for paying back loans	-1 146 483	-195 813	-1 631 298	-278 617
Expenditures for redemption of asset that was hired	-7 415	-130 786	-10 551	-186 092
Cash flow from financing activities	6 237 694	245 309	8 875 439	349 043
IV. Fluctuations of exchange rate	0	5 169	0	7 355
V. Net cash flow of the year of account increase (+), decrease (-)	-4 497	19 388	-6 399	27 586
VI. Money and its equivalents balance at the beginning of the year of account	24 414	5 026	34 738	7 151
VII. Money and its equivalents balance at the end of the year of account	19 917	24 414	28 339	34 738

Cash flow statement is prepared according to indirect method in accordance with SGS Nr.7.

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

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	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
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	0	0	47 113	0	0	0	0	47 113
Distribution of profit of the year 2011	0	0	-14 297	0	0	340 646	-326 349	0
Profit of the year of account	0	0	0	0	0	0	950 499	950 499
December 31, 2012	387 136	802 492	-3 847	1 987	2 623 085	-73 962	950 499	4 687 390
Fluctuation of exchange rate	0	0	-31 292	0	0	105 739	-42 186	32 261
Investment revaluation reserve	0	-22 160	0	0	0	0	0	-22 160
Distribution of profit of the year 2012	0	0	31 777	0	0	876 536	-908 313	0
Profit of the year of account	0	0	0	0	0	0	-183 306	-183 306
December 31, 2013	387 136	780 332	-3 362	1 987	2 623 085	908 313	-183 306	4 514 185

	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	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
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	67 036	0	0	0	0	67 036
Distribution of profit of the year 2011	0	0	-20 343	0	0	484 696	-464 353	0
Profit of the year of account	0	0	0	0	0	0	1 352 438	1 352 438
December 31, 2012	550 845	1 141 843	-5 474	2 827	3 732 314	-105 238	1 352 438	6 669 555
Fluctuation of exchange rate	0	0	-44 525	0	0	150 453	-60 025	45 903
Investment revaluation reserve	0	-31 531	0	0	0	0	0	-31 531
Distribution of profit of the year 2012	0	0	45 215	0	0	1 247 198	-1 292 413	0
Profit of the year of account	0	0	0	0	0	0	-260 821	-260 821
December 31, 2013	550 845	1 110 312	-4 784	2 827	3 732 314	1 292 413	-260 821	6 423 107

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Annex to the financial statement

1. Corporate information

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

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2013 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. For supplemental information purposes the consolidated financial statements are translated in euros (EUR, European Monetary Unit).

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 accounting policy and disclosures

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

Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendment has no impact on the Group's financial position or performance, because the Group has no Other Comprehensive Income.

Amendment to IAS 19 Employee Benefits (revised 2011)

The amendment has no impact on the Group's financial position or performance, because the Group does not have material defined benefit obligations.

Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendment has no impact on the Group's financial position or performance, because the Group does not have netting arrangements.

IFRS 13 Fair Value Measurement

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair

value is required or permitted by IFRS. The amendment affects presentation of disclosures only and has no impact on the Group's financial position or performance.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Interpretation has no impact on the Group's financial statements, as the Group is not involved in the mining activity.

Bookkeeping and accounting principles has not changed compared to the previous reporting period.

Use of calculations

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

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the ООО «Салдус» and ООО «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 ООО «Салдус» and ООО «Деревообрабатывающий комбинат № 3» 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.

	31.12.2013	31.12.2012
	Ls	Ls
RUB	0.0156	0.0174
USD	0.515	0.531
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.

In accordance with the accounting policies - land of forests are valued using the revaluation method. A plot shall be performed on a regular basis depending on changes in value. If the asset (the land of forests), the revalued value is not significantly different from its balance sheets value, they are revalued every five years by ordering evaluation to the certified forests assessor. In case of radical changes in the real estate market valuation may be ordered more frequently. Last evaluation is made on 31.12.2013. Records are prepared in accordance with SGS Nr.16 requirement.

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 2013 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 2013. 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

Company is a joint stock company. Company share capital is LVL 387 136. And consist of 108 500 bearer shares and 278 636 registered shares. All shares are denominated and are dematerialised. More detailed information on spread of share capital is given in the Note 20.

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	
	2013	2012	2013	2012	2013	2012	2013	2012
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	4 789 249	6 692 949	23 210 153	18 719 227	2 914 764	2 005 530	30 914 166	27 417 706
Production costs of the sold production	-4 445 076	-5 350 085	-22 829 887	-17 489 727	-3 480 435	-2 068 705	-30 755 398	-24 908 517
Selling costs	-1 867	-464 494	-10 585	-54 904	-28 918	-37 681	-41 370	-557 079
General administration costs	-22 132	-14 857	-39 765	-67 894	-217 430	-205 594	-279 327	-288 346
Other income/expenditures from company's economic activity	-3 594	-8 812	-88 874	-112 634	45 087	-223 656	-47 381	-345 102
Profit or loss from economic activity	316 580	854 701	241 042	994 068	-766 932	-530 106	-209 310	1 318 662
Other interset income/payments and the like income	-5 013	-6 885	3 150	-41 179	-381 915	-98 169	-383 778	-146 233
Company's deferred income tax	0	0	0	0	423 939	-209 138	423 939	-209 138
Other taxes	0	0	-5 680	0	-8 477	-12 792	-14 157	-12 792
Income from segments activities	-9 559	-85 045	-155 749	-55 211	165 308	140 256	0	0
Profit or (loss)	302 008	762 771	82 763	897 678	-568 077	-709 949	-183 306	950 499
Segment assets	3 171 980	4 176 310	15 372 376	11 680 546	1 930 485	1 251 424	20 474 840	17 108 280
Segment liabilities	2 959 228	3 674 677	15 198 577	12 012 724	2 317 036	1 420 879	20 474 840	17 108 280

	Logging		Timber processing		Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	6 814 487	9 523 208	33 025 072	26 635 060	4 147 336	2 853 612	43 986 895	39 011 881
Production costs of the sold production	-6 324 773	-7 612 485	-32 484 003	-24 885 640	-4 952 213	-2 943 502	-43 760 989	-35 441 627
Selling costs	-2 657	-660 915	-15 061	-78 121	-41 147	-53 615	-58 864	-792 652
General administration costs	-31 491	-21 140	-56 580	-96 604	-309 375	-292 534	-397 447	-410 279
Other income/expenditures from company's economic activity	-5 114	-12 538	-126 456	-160 264	64 153	-318 234	-67 417	-491 036

Profit or loss from economic activity	450 453	1 216 130	342 972	1 414 431	-1 091 246	-754 273	-297 821	1 876 287
Other interset income/payments and the like income	-7 133	-9 796	4 482	-58 592	-543 416	-139 682	-546 067	-208 071
Company's deferred income tax	0	0	0	0	603 211	-297 577	603 211	-297 577
Other taxes	0	0	-8 082	0	-12 062	-18 201	-20 144	-18 201
Income from segments activities	-13 601	-121 008	-221 611	-78 558	235 212	199 566	0	0
Profit or (loss)	429 719	1 085 325	117 761	1 277 281	-808 301	-1 010 166	-260 821	1 352 438
Segment assets	4 513 320	5 942 354	21 872 920	16 619 920	2 746 832	1 780 616	29 133 073	24 342 889
Segment liabilities	4 210 601	5 228 594	21 625 627	17 092 567	3 296 845	2 021 728	29 133 073	24 342 889

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.

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
Income from sales, int. Al.	29 062 824	25 625 777	41 352 673	36 462 196
Latvia	28 690 680	25 309 169	40 823 160	36 011 703
Other countries	372 144	316 608	529 513	450 493
Income from rendering of services, int. Al.	1 509 196	1 583 055	2 147 392	2 252 484
Latvia	1 491 302	1 573 732	2 121 932	2 239 219
Other countries	17 894	9 323	25 461	13 265
Financing of the EU structural funds	342 146	208 694	486 830	296 945
	30 914 166	27 417 706	43 986 895	39 011 881

5. Production costs of sold products

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
<u>Production cost of products sold</u>				
Salary of employees	1 426 599	1 274 675	2 029 868	1 813 699
Social insurance costs	342 052	305 638	486 696	434 884
Reserve for vacation pays	44 742	23 249	63 662	33 080
Doubtful debtors reserve	1 752	0	2 493	0
Depreciation of property, plant and equipment	1 367 533	996 729	1 945 824	1 418 218
Costs of purchase of materials	644 241	120 950	916 672	172 096
Stem fee (purchase of cutting rights)	2 864 170	3 705 831	4 075 347	5 272 922
Purchase costs of sawn timber	20 171 577	14 881 156	28 701 568	21 173 977
Electricity and heating costs	752 690	399 438	1 070 981	568 349
Production related contractors expenses	1 334 248	1 674 279	1 898 464	2 382 284
Production equipment maintenance costs	651 053	596 343	926 365	848 520
Fuel costs	584 574	584 807	831 774	832 105
Revaluation of biological assets	-30 273	-233 234	-43 075	-331 862
Production equipment maintenance costs	587 585	574 319	836 058	817 182
Other services received	12 856	4 337	18 292	6 171
	30 755 399	24 908 517	43 760 990	35 441 627

6. Selling costs

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
Advertisement costs, market research, marketing	7 101	411	10 104	585
Transportation costs of goods	23 839	461 088	33 920	656 069
Salaries to employees		15 787		22 463
Other production costs	10 430	79 793	14 841	113 535
	41 370	557 079	58 864	792 652

7. General and administration costs

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
Salaries to employees	89 545	75 647	127 411	107 636
Maintenance of administration capital assets	60 266	69 203	85 751	98 467
Expense associated with maintenance of administration	23 343	29 369	33 214	41 788
Office maintenance costs	63 878	72 907	90 890	103 737
Annual report expenses	3 300	3 300	4 695	4 695
Banking expenses	38 995	37 920	55 485	53 955
	279 327	288 346	397 447	410 279

8. Other income from economic activity

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
<u>Other income</u>				
Income from services	206 261	57 605	293 483	81 965
Net income from sale of long term investment	57 625	17 027	81 993	24 227
Income from lease of fixed assets	71 202	77 336	101 311	110 039
Financing of the EU structural funds and LAD	18 947	15 394	26 959	21 904
	354 035	167 362	503 746	238 135
<u>Other expense</u>				
Dues paid for land plots used in production	14 503	23 726	20 636	33 759
Security costs	209 588	289 587	298 217	412 045
Employee training expenses	454	62	646	88
Other expense for provision of economic activities	176 871	199 089	251 665	283 278
	401 416	512 464	571 164	729 171

9. Staff costs

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Average number of employees	183	175		
Total personnel costs				
Wage from a different legislative	26 365	15 127	37 515	21 523
Wages	1 468 979	1 307 735	2 090 169	1 860 739
Social tax	351 735	313 214	500 474	445 664
Unemployment risk due	540	524	768	746
	1 847 619	1 636 600	2 628 925	2 328 672
including:				
wages of production workers				
Wage from a different legislative	10 576	6 068	15 048	8 634
wages	1 387 499	1 251 973	1 974 233	1 781 397
social tax	332 107	299 781	472 546	426 551
unemployment risk due	522	509	743	724
	1 730 704	1 558 331	2 462 570	2 217 305
administration wages				
Wage from a different legislative	15 789	9 059	22 466	12 890
wages	38 979	17 454	55 462	24 835
social tax	9 390	4 205	13 361	5 983
Unemployment risk due	12	9	17	13
	64 170	30 727	91 306	43 720
incl. remuneration to company management - board				
wages	42 501	38 308	60 473	54 507
Social tax	10 238	9 228	14 567	13 130
Unemployment risk due	6	6	9	9
	52 745	47 542	75 049	67 646

10. Other costs of economic activity

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
<u>Income</u>				
Income from currency exchange	7 045	0	10 024	0
Income from exchange rate fluctuations	19 571	19 765	27 847	28 123
Income from the interest due	0	106	0	150
Income from doubtful debtors accruals reduction	34 553	0	49 164	0
Other income	46 705	24 871	66 455	35 389
	107 874	44 742	153 491	63 662
<u>Expense</u>				
Currency exchange expenses	5 312	2 201	7 558	3 132
Exchange rate fluctuations expenses	97 447	0	138 655	0
Donations	510	0	726	0
Fines paid	18 033	14 869	25 659	21 157
Other expense	167 789	44 377	238 742	63 143
Loan interest calculated	201 307	128 513	286 434	182 858
Financial lease interest recognised	1 253	1 014	1 783	1 443
	491 651	190 975	699 556	271 733

11. Deferred company income tax:

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
<u>Liabilities of the deferred company income tax</u>				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	11 173 356	9 273 539	11 337 333	13 195 057
Residual value of capital assets needed for taxes	7 967 923	6 163 544	15 898 253	8 769 933
Tax losses not covered	697 227	265 959	992 065	378 426
Accruals for holidays	23 419	16 432	33 322	23 381
Temporary difference	-3 205 433	-3 109 995	-4 560 920	-4 425 124
Liabilities of deferred tax	-480 815	-466 499	-684 138	-663 769
Assets of deferred tax	239 831	-184 108	341 249	-261 962

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

12. Other taxes

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Real estate tax	14 157	12 792	20 144	18 201
	14 157	12 792	20 144	18 201

13. Intangible investments

	Software LVL	Total LVL
As at 31.12.2012.	81895	81895
Cost	2867	2867
2013 Currency fluctuations	-2789	-2789
Impairment	-444	-444
As at 31.12.2013	81528	81528
Amortisation accrued 31.12.2012.	72873	72873
Amortisation	8410	8410
2013 Currency fluctuations	-2231	-2231
Impairment	-444	-444
Amortisation accrued 31.12.2013	78608	78608
As at 31.12.2012	9021	9021
As at 31.12.2013	2920	2920
Amortisation rate (by linear method)	5 years	
	EUR	EUR
As at 31.12.2012.	116526	116526
Cost	4079	4079
2013 Currency fluctuations	-3968	-3968
Impairment	-632	-632
As at 31.12.2013	116004	116004
Amortisation accrued 31.12.2012.	103689	103689
Amortisation	11966	11966
2013 Currency fluctuations	-3174	-3174
Impairment	-632	-632
Amortisation accrued 31.12.2013	111849	111849
As at 31.12.2012	12836	12836
As at 31.12.2013	4155	4155
Amortisation rate (by linear method)	5 years	

Goodwill

Holdings goodwill on 31.12.2013 is 275 524 LVL (392 035 EUR).

14. Capital assets

	Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished fixed assets	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Accounting value 31.12.2012	4 916 517	10 471 650	142 688	991 272	46 025	16 568 151
Purchase	1 102 219	1 252 826	14 080	0	0	2 369 125
2013 Liquidity	-27 533	-284	-3 862	0	0	-31 679
Reconstruction	0	928 768	0	-882 743	-46 025	0
Currency fluctuations	-58 110	-20 918	-244	0	0	-79 272
Accounting value 31.12.2013	5 933 093	12 632 042	152 662	108 529	0	18 826 326
Accured wear and tear 31.12.2012	992 959	3 300 662	80 543	0	0	4 374 164
Wear and tear	226 177	1 176 275	19 728	0	0	1 422 179
2013 Wear and tear of liquid assets	0	-284	-3 862	0	0	-4 146
Currency fluctuations	-3 787	-8 024	-238	0	0	-12 049
Accured wear and tear 31.12.2013	1 215 348	4 468 629	96 171	0	0	5 780 149
Residual value 31.12.2012	3 923 558	7 170 990	62 146	991 272	46 025	12 193 991
Residual value 31.12.2013	4 717 745	8 163 415	56 491	108 529	0	13 046 180

Rate of wear and tear (linear method)	5-20 year	4-10 year	3-10 year			
	EUR	EUR	EUR	EUR	EUR	EUR
Accounting value 31.12.2012	6 995 573	14 899 816	203 027	1 410 452	65 488	23 574 355
Purchase	1 568 316	1 782 611	20 034	0	0	3 370 961
2013 Liquidity	-39 176	-404	-5 495	0	0	-45 075
Reconstruction	0	1 321 518	0	-1 256 030	-65 488	0
Currency fluctuations	-82 683	-29 764	-348	0	0	-112 794
Accounting value 31.12.2013	8 442 031	17 973 776	217 218	154 422	0	26 787 448
Accured wear and tear 31.12.2012	1 412 853	4 696 420	114 602	0	0	6 223 875
Wear and tear	321 820	1 673 688	28 070	0	0	2 023 579
2013 Wear and tear of liquid assets	0	-404	-5 495	0	0	-5 899
Currency fluctuations	-5 389	-11 417	-339	0	0	-17 144
Accured wear and tear 31.12.2013	1 729 285	6 358 287	136 839	0	0	8 224 411
Residual value 31.12.2012	5 582 720	10 203 400	88 426	1 410 453	65 488	17 350 486
Residual value 31.12.2013	6 712 746	11 615 493	80 379	154 423	0	18 563 042
Rate of wear and tear (linear method)	5-20 year	4-10 year	3-10 year			

Cadastral value has been set for buildings owned by the company in amount to 417 252 Ls (593 696EUR)..

Cadastral value of lands at the balance date amounts to 390 041 Ls (554 978 EUR).

Unfinished construction and advance payments for capital assets

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Unfinished fixed assets Pakuļu sporta bāze SIA	78 872	78 872	112 225	112 225
Unfinished fixed assets Saldus mežrūpniecība AS	29 657	912 400	42 198	1 298 228
	108 529	991 272	154 423	1 410 453
Advanced payment for fixed assets Saldus mežrūpniecība AS	0	46 025	0	65 488

15. Reserves

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Materials, spare parts, inventory	49 602	201 679	70 577	286 963
Raw materials (round timber in forest and in mill)	1 525 958	1 099 995	2 171 243	1 565 152
Total raw materials:	1 575 560	1 301 674	2 241 820	1 852 115
Biological assets	346 605	251 989	493 174	358 548
Unfinished goods (round timber in forest and in mill)	74 980	74 073	106 687	105 396
Timber in production	368 517	370 946	524 352	527 809
Total unfinished goods:	443 497	445 019	631 039	633 205
Ready sawn materials products	767 113	436 764	1 091 503	621 459
Total ready products and goods for sale	767 113	436 764	1 091 503	621 459
Advance payments for goods	17 153	81 523	24 407	115 997

In the Holding on 31.12.2013. was carried out inventory and non-marketable stocks were not established.

*Reclassification of inventories: Raw material (round timber in forest and in sawmill) is reclassified from unfinished goods to raw materials.

16. Trade receivables

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Debts of buyers and customers	2 786 551	946 264	3 964 905	1 346 412
total	2 786 551	946 264	3 964 905	1 346 412

Residuals of debtors debts in the balance sheet are shown in their net value except for the reserves for doubtful debts in the amount of 85 996 LVL (122 361 EUR) which were established from the accounting value of these debts. Reserves for insecure debts were made on the bases of estimation of the financial situation and economic activity of some of the customers by taking into consideration the debt repayment in compliance with the concluded agreement and possibility of recovery. Reserves are made for the debtors who 2 years in turn have not responded to collation acts and can not be found in their given addresses and for the debtors against whom there has been started the procedure of insolvency (reference from the CR).

17. Other debtors

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Surplus tax payment	23 884	51 687	33 983	73 544
VAT paid in advance on boarder	441	441	627	627
Guarantee payments made	2 978	2 961	4 237	4 213
Loans to employees	0	1 752	0	2 493
Other debtors	1 321	89 020	1 880	126 664
In total other debtors	28 623	145 861	40 728	207 542

18. Expenditures of the next periods

	2013 LVL	2012 LVL	2012 EUR	2012 EUR
Insurance	9 568	8 586	13 614	12 217
Licence fees	481	445	684	633
Other	200 741	227 803	285 629	324 134
In total expenditure of the next periods	210 790	236 834	299 927	336 984

19. Money and its equivalents

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Money in accounts	19 917	24 414	28 339	34 738
Money total	19 917	24 414	28 339	34 738

2013

Currency division	Currency	LVL
	LVL	6079
	EUR	16330
	RUB	2134
	USD	4520

19 917
20. Share capital, reserves and profit per share

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

	%	2013 LVL	2013 EUR
Shares of closed issue			
SIA Merkants	26,00	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	26,99	104 489	148 674
Physical persons of the Republic of Latvia	2,99	11 577	16 473
SIA JL Lindex	15,99	61 915	88 097
Shares of public offering *	28,03	108 500	154 382
Total:	100	387 136	550 845
31.12.2012		387 136	550 845
31.12.2013		387 136	550 845

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
Profit of the period of account	-183 306	950 499	-260 821	1 352 438
Number of shares 31.12.2013	387 136	387 136	550 845	550 845
Basic profit per share per year	-0,47	2.46	-0,67	3.49

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

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account which makes -183 306 Ls is divided with the weighted-average number of shares in circulation in the period of account which is 387 136.

A nominal value of each share is 1 Latvian lat.

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

21. Loans from credit institutions

		% rate in force	The repayment term	2013	2012	2013	2012
				LVL	LVL	EUR	EUR
Long-term:							
A/s Swedbank	3 mon.Euribor + %	1 year or more	0	163 168	0	232 168	
A/s Swedbank	3 mon.Euribor + %	1 year or more	0	34 681	0	49 347	
Nordea Bank Finland Plc creditline	The Base rate EONIA +	1 year or more	5 332 157	0	7 586 976	0	
Nordea Bank Finland Plc creditline	The Base rate EONIA +	1 year or more	1 395 621	1 755 041	1 985 790	2 497 199	
Nordea Bank Finland Plc creditline	The Base rate EONIA +	1 year or more	700 778	881 761	997 117	1 254 633	
Nordea Bank Finland Plc	Fixed + %	1 year or more	293 096	90 323	417 038	128 519	
Nordea Bank Finland Plc	Fixed + %	1 year or more	1 501 058	219 339	2 135 813	312 091	
Nordea Bank Finland Plc	3 mon.Euribor + %	1 year or more	282 234	367 976	401 583	523 583	
Nordea Bank Finland Plc	3 mon.Euribor + %	1 year or more	146 966	191 594	209 114	272 613	
				9 651 910	3 703 884	13 733 431	5 270 152
Short-term:							
A/s Swedbank	3 mon.Euribor + %	up to 12 mon.	123 572	12 634	175 827	17 977	
Nordea Bank Finland Plc creditline	The Base rate EONIA +	up to 12 mon.	351 397	351 396	499 993	499 992	
Nordea Bank Finland Plc creditline	The Base rate EONIA +	up to 12 mon.	175 701	421 681	250 000	599 998	
Nordea Bank Finland Plc	Fixed + %	up to 12 mon.	49 537	1 088	70 485	1 548	
Nordea Bank Finland Plc	Fixed + %	up to 12 mon.	391 239	7 563	556 683	10 762	
Nordea Bank Finland Plc	3 mon.Euribor + %	up to 12 mon.	85 742	85 742	122 000	122 000	
Nordea Bank Finland Plc	3 mon.Euribor + %	up to 12 mon.	44 628	44 628	63 500	63 500	
				1 221 816	924 733	1 738 488	1 315 777
Total				10 873 726	4 628 617	15 471 918	6 585 929

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

22. Liabilities of financial lease and other loans

	% rate in force	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Short-term:					
Swedbank Lizings SIA	3 mon. Euribor+%	0	6 223	0	8 855
Nordea Lizings SIA	Fixed rate	0	1 192	0	1 696
		0	7 415	0	10 551

23. Taxes payable

	31.12.2012 LVL	Paid in 2013 LVL	Calculated in 2013 LVL	Fine LVL	Taxes recognized as other taxes LVL	31.12.2013 LVL
Company Income Tax(Adjustment)	25 116	0	0	0	-25 116	0
VAT	49 494	-112 960	-188 828	2 255	-101 491	21 616
VAT on the boarder	441	0	0	0	0	441
Peoples Income Tax	-69 696	252 700	274 328	3 688	45 070	-49 942
Compulsory Payments of Social Insurance Tax	-72 256	470 100	512 349	1 289	81 579	-34 215
Natural Resources Tax	-455	500	100	3	-42	-100
Property Tax	-261	14 013	13 875	87	0	-210
Risk due	-78	650	540	1	0	31
Other legislative taxes	-19 931	0	0	0	0	-4 756
Total	-87 626	625 003	612 364	7 323	0	-67 135
Debt on taxes	-162 677					-89 223
Overpayd taxes	75 052					22 088

	31.12.2012 EUR	Paid in 2013 EUR	Calculated in 2013 EUR	Fine EUR	Taxes recognized as other taxes EUR	31.12.2013 EUR
Company Income Tax(Adjustment)	35 737	0	0	0	-35 737	0
VAT	70 424	-160 728	-268 678	3 209	-144 409	30 757
VAT on the boarder	627	0	0	0	0	627
Peoples Income Tax	-99 168	359 560	390 334	5 248	64 129	-71 061
Compulsory Payments of Social Insurance Tax	-102 811	668 892	729 007	1 834	116 076	-48 684
Natural Resources Tax	-647	711	142	4	-60	-142
Property Tax	-371	19 939	19 742	124	0	-298
Risk due	-111	925	768	1	0	44
Other legislative taxes	-28 359	0	0	0	0	-6 767
Total	-124 680	889 299	871 315	10 420	0	-95 524
Debt on taxes	-231 469					-126 953
Overpayd taxes	106 789					31 428

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

24. Other liabilities

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
<u>Short-term</u>				
Salary payments	69 520	73 012	98 918	103 887
Contributions to private pension funds	2 138	2 138	3 042	3 042
Payments for deductions from wages	903	880	1 285	1 252
Advance payments to employees	1 097	369	1 561	525
Other creditors	228	0	324	0
	73 886	76 399	105 130	108 706
<u>Long-term:</u>				
Other creditors	963 064	4 108 420	1 370 317	5 845 755
	963 064	4 108 420	1 370 317	5 845 755

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

25. Accrued liabilities

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Accrued for holidays	156 127	109 544	222 149	155 867
	156 127	109 544	222 149	155 867

26. Liabilities provisions

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Accrued liabilities	64 415	91 430	91 654	130 093
	64 415	91 430	91 654	130 093

27. Incomes from the next periods

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
<u>Long-term:</u>				
Project No. 124000041	928	12 184	1 320	17 336
Project No..04/415034/0002/023	0	4 978	0	7 084
Project No.L-APV-10-0015	1 427 114	378 563	2 030 600	538 646
	1 428 042	395 725	2 031 921	563 066
<u>Short-term</u>				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No..04/415034/0002/023	4 978	4 988	7 083	7 097
Project No.L-APV-10-0015	325 902	325 902	463 717	463 716
Other income	44	44	63	63
	342 177	342 187	486 874	486 888

28. Expenditures due to the environment protection

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

29. Financial instruments

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

Financial risks

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

Credit risk

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

The Holding controls its credit risks by constantly estimating the history of how debtors pay back their debts and by establishing crediting conditions for each customer separately. Besides, the company constantly monitors the reminders of debtors' debts in order to decrease the possible of arising of unrecoverable debts.

Foreign currency risk

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

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

Interest risk

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

The management of the Holding think that the financial assets and liabilities of the Holding on December 31, 2013 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

Liquidity risk

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

Real value

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

30. Events after the year of account

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

Auditor's statement

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Saldus mežrūpniecība

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Saldus mežrūpniecība (the Parent Company) and its subsidiaries (hereinafter – the Group), set out on pages 6 to 29 of the accompanying 2013 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

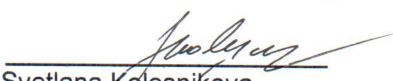
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated management report for the year ended 31 December 2013 (set out on page 4 of the accompanying 2013 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2013.


Svetlana Kolesnikova

Sworn auditor in charge

LZRA certificate No. 22

Tornakalna street 28, Riga, LV-1004. Tel. 67285801, mob. tel. 29235573, E-mail: sveta.ars@ml.lv

Riga, 30th April, 2014