

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF 2013 (UNAUDITED)

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

Saldus, 2013

CONTENT

| | |
|--|-----------|
| Information about the Company | 3 |
| Management announcement | 4 |
| Statement of Management Responsibility | 5 |
| Profit or loss calculation | 6 |
| Balance sheet | 7 |
| Balance sheet (continuation) | 8 |
| Cash flow statement | 9 |
| Statement on the changes in own capital | 10 |
| Annex to the financial statement | 11 |

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 Gunvaldis Vesmins (<i>Gunvaldis Vēsminš</i>) – member of the Council |
| Subsidiary enterprise | |
| 1. Name of the company | <i>Pukuļi 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 –March 31, 2013 |
| 2. Name of the company | Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%) |
| Legal status of the company | Limited Liability Company (ООО - Общество с ограниченной ответственностью) |
| Registration number, date, place | 1066027046337 October 9, 2006 |
| Address | Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А |
| The main areas of activities of the company | Woodworking, production of board lumber |
| Owner of the company | Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100% |
| Reporting year | January 1 –March 31 2013 |
| 3. Name of the company | Saldus (<i>Салдус</i>) (100%) |
| Legal status of the company | Limited Liability Company (ООО - Общество с ограниченной ответственностью) |
| Registration number, date, place | 1056000426371 21. December 2005 |
| Address | Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А |
| The main areas of activities of the company | Purchase of lumber |
| Owner of the company | Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100% |
| Reporting year | January 1 –March 31, 2013 |

Management announcement

To Report of economic activity for the 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.

Profit of A/s „Saldus mežrūpniecība” for the first 3 month of 2013 are 195 014 LVL at the net turnover of 7 728 757 LVL, which means profit on one share issued of 0.50 LVL.

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

Forecasts for financial statments and operational plans of 2013

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

Business and financial risk management policy

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

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

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

May 31, 2013

Board:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gatis Zommers
valdes loceklis

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 March 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.

Profit or loss calculation

| | 31.03.2013 | 31.12.2012 | 31.03.2013 | 31.12.2012 |
|--|-----------------|------------------|-----------------|------------------|
| | LVL | LVL | EUR | EUR |
| Net turnover | 7 728 757 | 27 091 595 | 10 997 030 | 38 547 867 |
| Production costs of the sold production | -7 367 954 | -24 608 037 | -10 483 654 | -35 014 082 |
| Gross profit | 360 803 | 2 483 558 | 513 376 | 3 533 785 |
| Selling costs | -251 | -497 078 | -357 | -707 278 |
| General administration costs | -37 333 | -221 238 | -53 120 | -314 793 |
| Other income from company's economic activity | 21 656 | 167 362 | 30 814 | 238 135 |
| Other expenditures from company's economic activity | -120 958 | -512 464 | -172 108 | -729 171 |
| Profit or loss from economic activity | 223 917 | 1 420 140 | 318 605 | 2 020 677 |
| Other interest income and the like income | 179 | 31 785 | 255 | 45 226 |
| Other interest payments and the like payments | -29 082 | -145 502 | -41 380 | -207 031 |
| Profit or loss before extraordinary items and taxes | 195 014 | 1 306 423 | 277 480 | 1 858 872 |
| Company's income tax | | | | |
| Company's deferred income tax | 0 | -209 138 | 0 | -297 577 |
| Other taxes | 0 | -12 592 | 0 | -17 917 |
| Profit or (loss) | 195 014 | 1 084 693 | 277 480 | 1 543 379 |
| Profit/loss on share | 0,50 | 2,80 | 0,72 | 3,99 |
| lats per share/EUR per share | | | | |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gatis Zommers
valdes loceklis

Balance sheet

ASSETS

| | 31.03.2013 | 31.12.2012 | 31.03.2013 | 31.12.2012 |
|---|-------------------|-------------------|-------------------|-------------------|
| | LVL | LVL | EUR | EUR |
| LONG-TERM INVESTMENTS | | | | |
| Intangible investments | | | | |
| Concessions, patents, licences, trademarks and the like items | 3 554 | 3 631 | 5 057 | 5 166 |
| TOTAL | 3 554 | 3 631 | 5 057 | 5 166 |
| Fixed assets | | | | |
| Land, premises and buildings | 3 333 592 | 3 378 883 | 4 743 274 | 4 807 717 |
| Equipment and machinery | 6 768 315 | 7 021 772 | 9 630 445 | 9 991 081 |
| Other fixed assets | 58 834 | 62 084 | 83 713 | 88 338 |
| Unfinished constructions | 2 322 502 | 912 400 | 3 304 623 | 1 298 229 |
| Advance payments for fixed assets | 46 873 | 46 025 | 66 694 | 65 488 |
| TOTAL | 12 530 116 | 11 421 164 | 17 828 749 | 16 250 853 |
| Biological assets | 719 301 | 719 301 | 1 023 473 | 1 023 473 |
| Long-term financial investments | | | | |
| Participation in the capital of related companies | 709 234 | 709 234 | 1 009 149 | 1 009 149 |
| Loans to the related companies | 652 434 | 632 020 | 928 330 | 899 283 |
| Atliktā nodokļa aktīvs | | | | |
| TOTAL | 1 361 668 | 1 341 254 | 1 937 479 | 1 908 433 |
| TOTAL LONG-TERM INVESTMENTS | 14 614 639 | 13 485 350 | 20 794 758 | 19 187 925 |
| CURRENT ASSETS | | | | |
| Stocks | | | | |
| Raw materials, direct materials, auxiliary materials | 56 270 | 39 071 | 80 065 | 55 593 |
| Biological assets | 251 989 | 251 989 | 358 548 | 358 548 |
| Unfinished production | 2 071 269 | 1 545 014 | 2 947 150 | 2 198 357 |
| Finished production and goods for sale | 468 048 | 390 969 | 665 972 | 556 299 |
| Advance payments for goods | 17 153 | 17 153 | 24 407 | 24 407 |
| TOATL | 2 864 729 | 2 244 196 | 4 076 142 | 3 193 204 |
| Noncurrent assets held for sale | | | | |
| Fixed assets held for sale | 62 203 | 62 203 | 88 507 | 88 507 |
| Debtors | | | | |
| Debts of buyers and customers | 1 363 784 | 933 164 | 1 940 490 | 1 327 773 |
| Debts of subsidiaries | 289 251 | 266 003 | 411 567 | 378 488 |
| Other debtors | 125 079 | 103 014 | 177 971 | 146 576 |
| Expenditures of the next periods | 45 476 | 21 413 | 64 707 | 30 468 |
| TOTAL | 1 823 590 | 1 323 594 | 2 594 735 | 1 883 305 |
| Money and its equivalents | 7 310 | 10 433 | 10 401 | 14 845 |
| TOTAL CURRENT ASSETS | 4 757 832 | 3 640 426 | 6 769 785 | 5 179 860 |
| TOTAL ASSETS | 19 372 471 | 17 125 777 | 27 564 543 | 24 367 786 |

The annex is an integral part of this financial statement.

Board:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gatis Zommers
valdes loceklis

Balance sheet (continuation)

| | 31.03.2013 | 31.12.2012 | 31.03.2013 | 31.12.2012 |
|--|-------------------|-------------------|-------------------|-------------------|
| | LVL | LVL | EUR | EUR |
| Shareholders'equity | | | | |
| Share capital | 387 136 | 387 136 | 550 845 | 550 845 |
| Increase of price of the issue of shares | 1 987 | 1 987 | 2 827 | 2 827 |
| Reserves from revaluation of long-term investments | 802 492 | 802 492 | 1 141 843 | 1 141 843 |
| Other reserves | 2 623 085 | 2 623 085 | 3 732 314 | 3 732 314 |
| Retained earnings from the previous year | 1 518 853 | 434 160 | 2 161 133 | 617 754 |
| Retained earnings from the year of account | 195 014 | 1 084 693 | 277 480 | 1 543 379 |
| Total shareholders'equity | 5 528 567 | 5 333 553 | 7 866 442 | 7 588 962 |
| Accruals for holiday | 109 544 | 109 544 | 155 867 | 155 867 |
| TOTAL | 109 544 | 109 544 | 155 867 | 155 867 |
| Long-term liabilities | | | | |
| Long-term loans from credit institutions | 4 750 719 | 3 506 035 | 6 759 664 | 4 988 638 |
| Long-term part of financial lease liabilities | 0 | 0 | 0 | 0 |
| Other creditors | 4 025 359 | 4 025 359 | 5 727 570 | 5 727 570 |
| Deferred company's income tax | 184 108 | 184 108 | 261 962 | 261 962 |
| Long-term part of incomes from next periods | 1 160 212 | 395 725 | 1 650 833 | 563 066 |
| TOTAL | 10 120 398 | 8 111 227 | 14 400 029 | 11 541 236 |
| Short-term liabilities | | | | |
| Short-term loans from credit institutions | 926 709 | 912 099 | 1 318 588 | 1 297 800 |
| Short-term part of financial lease | 0 | 7 415 | 0 | 10 551 |
| Debts to suppliers and contractors | 1 914 970 | 1 999 376 | 2 724 757 | 2 844 856 |
| Advance payments received from buyers | 76 755 | 91 430 | 109 213 | 130 093 |
| Taxes payable | 261 021 | 142 547 | 371 399 | 202 826 |
| Other creditors | 92 320 | 76 399 | 131 360 | 108 706 |
| Incomes from the next periods short-term part | 342 187 | 342 187 | 486 888 | 486 888 |
| TOTAL | 3 613 962 | 3 571 453 | 5 142 205 | 5 081 720 |
| Total liabilities | 13 734 360 | 11 682 680 | 19 542 234 | 16 622 956 |
| Total shareholders'equity and liabilities | 19 372 471 | 17 125 777 | 27 564 543 | 24 367 786 |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gatis Zommers
valdes loceklis

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: | 195 014 | 1 306 423 | 277 480 | 1 858 872 |
| wear and tear of fixed assets and intangible investments (+) | 348 118 | 1 047 857 | 495 327 | 1 490 966 |
| elimination of fixed assets and intangible investments | 0 | 29 | 0 | 41 |
| revaluation of biological assets | 0 | -233 234 | 0 | -331 862 |
| Accruals (except accruals for doubtful debts) | 0 | 22 577 | 0 | 32 124 |
| profit (-) or loss (+) from fluctuations of exchange rate | 0 | -7 474 | 0 | -10 635 |
| Interest income | 0 | -23 248 | 0 | -33 079 |
| Income from finansation recognition | 764 487 | -208 693 | 1 087 767 | -296 943 |
| Interest expenditure | 29 776 | 124 055 | 42 367 | 176 514 |
| Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities | 1 337 395 | 2 028 292 | 1 902 942 | 2 885 999 |
| increase (+) or decrease (-) of debtors debt | -566 153 | -387 374 | -805 563 | -551 184 |
| increase (+) or decrease (-) of the reserves of accruals | -558 330 | -119 196 | -794 432 | -169 601 |
| increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors | 39 269 | 738 948 | 55 875 | 1 051 428 |
| Gross cash flow from basic activity | 252 181 | 2 260 670 | 358 821 | 3 216 643 |
| Expenditures to pay interest payments | -29 776 | -124 055 | -42 367 | -176 514 |
| Expenditures to pay company's income tax and immovable property tax | 0 | 0 | 0 | 0 |
| Net cash flow from basic activity | 222 405 | 2 136 615 | 316 454 | 3 040 129 |
| II. Cash flow from investments | | | | |
| Income from selling fixed assets and intangible investments | 0 | 0 | 0 | 0 |
| Acquisition of fixed assets and intangible investments | -46 044 | -1 241 169 | -65 515 | -1 766 024 |
| Expenditures for advance payments for fixed assets and unfinished | -1 410 949 | -1 114 100 | -2 007 600 | -1 585 221 |
| Loans issued | -20 414 | -86 196 | -29 047 | -122 646 |
| Income from loans repaymens | | | | |
| Net cash flow from investments | -1 477 407 | -2 441 465 | -2 102 161 | -3 473 892 |
| III. Cash flow from financing activities | | | | |
| Recieved loans | 1 394 924 | 571 908 | 1 984 797 | 813 752 |
| Recieved subsidies, donations or benefactions | 0 | 0 | 0 | 0 |
| Expenditures for paying back loans | -135 630 | -130 370 | -192 984 | -185 500 |
| Expenditures for redemption of asset that was hired | -7 415 | -130 786 | -10 551 | -186 092 |
| Cash flow from financing activities | 1 251 879 | 310 752 | 1 781 263 | 442 160 |
| IV. Fluctuations of exchange rate | 0 | 0 | 0 | 0 |
| V. Net cash flow of the year of account increase (+), decrease (-) | -3 124 | 5 902 | -4 445 | 8 397 |
| VI. Money and its equivalents balance at the beginning of the year of account | 10 433 | 4 531 | 14 845 | 6 447 |
| VII. Money and its equivalents balance at the end of the year of account | 7 309 | 10 433 | 10 400 | 14 845 |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gatis Zommers
valdes loceklis

Statement on the changes in own capital

| | Share capital | Share premium | Reserves from revaluation of long-term investments | Other reserves | Previous years retained earnings | Retained profit/loss of the year of account | Toatal own capital |
|---|----------------|---------------|--|------------------|----------------------------------|---|--------------------|
| | LVL | LVL | LVL | LVL | LVL | LVL | LVL |
| December 31, 2011 | 387 136 | 1 987 | 802 492 | 2 623 085 | -100 796 | 534 956 | 4 248 860 |
| Distribution of profit of the year 2011 | 0 | 0 | 0 | 0 | 534 956 | -534 956 | 0 |
| Profit of the year of account | 0 | 0 | 0 | 0 | 0 | 1 084 693 | 1 084 693 |
| December 31, 2012 | 387 136 | 1 987 | 802 492 | 2 623 085 | 434 160 | 1 084 693 | 5 333 553 |
| Distribution of profit of the year 2012 | 0 | 0 | 0 | 0 | 1 084 693 | -1 084 693 | 0 |
| Profit of the year of account | 0 | 0 | 0 | 0 | 0 | 195 014 | 195 014 |
| March 31, 2013 | 387 136 | 1 987 | 802 492 | 2 623 085 | 1 518 853 | 195 014 | 5 528 567 |

| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
|---|----------------|--------------|------------------|------------------|------------------|------------------|------------------|
| December 31, 2011 | 550 845 | 2 827 | 1 141 843 | 3 732 314 | -143 420 | 761 174 | 6 045 583 |
| Distribution of profit of the year 2011 | 0 | 0 | 0 | 0 | 761 174 | -761 174 | 0 |
| Profit of the year of account | 0 | 0 | 0 | 0 | 0 | 1 543 379 | 1 543 379 |
| December 31, 2012 | 550 845 | 2 827 | 1 141 843 | 3 732 314 | 617 754 | 1 543 379 | 7 588 962 |
| Distribution of profit of the year 2012 | 0 | 0 | 0 | 0 | 1 543 379 | -1 543 379 | 0 |
| Profit of the year of account | 0 | 0 | 0 | 0 | 0 | 277 480 | 277 480 |
| March 31, 2013 | 550 845 | 2 827 | 1 141 843 | 3 732 314 | 2 161 133 | 277 480 | 7 866 442 |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gatis Zommers
valdes loceklis

Annex to the financial statement

1. Corporative information

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

2. Important accounting principles

Basis of preparation

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

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

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2013 through 31 March 2013.

Use of calculations (continuation)

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

Decrease of the value of assets

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

Foreign currency translation

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

Currency exchange rates established by the Bank of Latvia:.

| | 31.03.2013 | 31.12.2012 |
|-------|------------|------------|
| | Ls | Ls |
| 1 RUB | 0.0177 | 0.0174 |
| 1 USD | 0.547 | 0.531 |
| 1 EUR | 0.702804 | 0.702804 |

Intangible investment

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2012 applying discount rate of 6%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2012. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Investments in subsidiaries

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

Reserves

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

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

Accruals

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

Credits and loans

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

Lease

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

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

Income recognition

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

Rendering of services

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

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

Sale of goods

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

Interest

Interest is recognised according to savings method.

Dividends

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

Income from lease

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

Corporate income tax

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

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

Associated persons

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

Possible liabilities and assets

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

Share capital

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

Accruals and deferred liabilities

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

Events after the end of the year of account

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

3. Segments of the Holding activities

| | Logging | | Timber processing | | Other | | Total | |
|--|----------------|----------------|-------------------|------------------|-----------------|-----------------|----------------|------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | LVL | LVL | LVL | LVL | LVL | LVL | LVL | LVL |
| Net turnover | 1 910 743 | 6 376 341 | 5 260 702 | 18 709 904 | 557 312 | 2 005 350 | 7 728 757 | 27 091 595 |
| Production costs of the sold production | -1 601 441 | -5 051 323 | -5 079 026 | -17 488 009 | -687 487 | -2 068 705 | -7 367 954 | -24 608 037 |
| Selling costs | -237 | -457 080 | -14 | -2 317 | 0 | -37 681 | -251 | -497 078 |
| General administration costs | -1 252 | -4 515 | -3 497 | -13 321 | -32 584 | -203 402 | -37 333 | -221 238 |
| Other income/expenditures from company's economic activity | -3 576 | -8 812 | -23 150 | -112 634 | -72 576 | -223 656 | -99 302 | -345 102 |
| Profit or loss from economic activity | 304 237 | 854 611 | 155 015 | 1 093 623 | -235 335 | -528 094 | 223 917 | 1 420 140 |
| Other interset income/payments and the like income | -735 | -5 565 | -8 752 | -18 074 | -19 416 | -90 078 | -28 903 | -113 717 |
| Company's deferred income tax | 0 | 0 | 0 | 0 | 0 | -209 138 | 0 | -209 138 |
| Other taxes | 0 | 0 | 0 | 0 | 0 | -12 592 | 0 | -12 592 |
| Income from segments activities | 1 446 | -85 045 | -55 924 | -55 211 | 54 478 | 140 256 | 0 | 0 |
| Profit or (loss) | 304 948 | 764 001 | 90 339 | 1 020 338 | -200 273 | -699 646 | 195 014 | 1 084 693 |
| Segment assets | 4 789 362 | 4 030 763 | 13 186 182 | 11 827 345 | 1 396 927 | 1 267 669 | 19 372 471 | 17 125 777 |
| Segment liabilities | 4 210 649 | 3 515 430 | 13 354 221 | 12 170 647 | 1 807 601 | 1 439 700 | 19 372 471 | 17 125 777 |

| | Logging | | Timber processing | | Other | | Total | |
|--|----------------|------------------|-------------------|------------------|-----------------|-----------------|----------------|------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Net turnover | 2 718 742 | 9 072 716 | 7 485 305 | 26 621 795 | 792 984 | 2 853 356 | 10 997 030 | 38 547 867 |
| Production costs of the sold production | -2 278 645 | -7 187 385 | -7 226 803 | -24 883 195 | -978 206 | -2 943 502 | -10 483 654 | -35 014 082 |
| Selling costs | -337 | -650 366 | -20 | -3 297 | 0 | -53 615 | -357 | -707 278 |
| General administration costs | -1 781 | -6 424 | -4 976 | -18 954 | -46 363 | -289 415 | -53 120 | -314 793 |
| Other income/expenditures from company's economic activity | -5 088 | -12 538 | -32 939 | -160 264 | -103 266 | -318 234 | -141 294 | -491 036 |
| Profit or loss from economic activity | 432 890 | 1 216 002 | 220 566 | 1 556 085 | -334 852 | -751 410 | 318 605 | 2 020 677 |
| Other interset income/payments and the like income | -1 046 | -7 918 | -12 453 | -25 717 | -27 626 | -128 169 | -41 125 | -161 805 |
| Company's deferred income tax | 0 | 0 | 0 | 0 | 0 | -297 577 | 0 | -297 577 |
| Other taxes | 0 | 0 | 0 | 0 | 0 | -17 917 | 0 | -17 917 |
| Income from segments activities | 2 057 | 0 | -79 573 | 0 | 77 515 | 0 | 0 | 0 |
| Profit or (loss) | 433 902 | 1 087 075 | 128 541 | 1 451 810 | -284 963 | -995 507 | 277 480 | 1 543 379 |
| Segment assets | 6 814 648 | 5 735 259 | 18 762 247 | 16 828 796 | 1 987 648 | 1 803 731 | 27 564 543 | 24 367 785 |
| Segment liabilities | 5 991 214 | 5 002 006 | 19 001 344 | 17 317 271 | 2 571 985 | 2 048 508 | 27 564 543 | 24 367 785 |

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 LVL | 2012 LVL | 2013 EUR | 2012 EUR |
|--|------------------|-------------------|-------------------|-------------------|
| Income from sales, int. Al. | 7 214 123 | 25 309 169 | 10 264 772 | 36 011 703 |
| Latvia | 7 214 123 | 25 309 169 | 10 264 772 | 36 011 703 |
| the EU countries | | | | |
| Other countries | | | | |
| Income from rendering of services, int. Al. | 429 098 | 1 468 057 | 610 551 | 2 088 857 |
| Latvia | 429 098 | 1 468 057 | 610 551 | 2 088 857 |
| the EU countries | | | | |
| Other countries | | | | |
| Financing of the EU structural funds | 85 536 | 314 369 | 121 707 | 447 307 |
| | 7 728 757 | 27 091 595 | 10 997 030 | 38 547 867 |