

**JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”**

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF THE YEAR 2011**

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

**Saldus, 2011**

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## Information about the Company

<p>Name of the Company                  Legal status of the Company                  Registration number, place, and date                  Address</p>	<p><b>Saldus Timber Wood Industry (Saldus mežrūpniecība)</b>                  Joint Stock Company                  40003020124 August 26, 1991, Rīga                  Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801</p>
<p>The main areas of activities of the Company</p>	<p>Forestry, commercial timber preparation and related services; production of board lumber, etc.</p>
<p>Members of the Board: name, surname, position</p>	<p>Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board                  Janis Merkalns (<i>Jānis Mierkalns</i>) – member of the Board                  Gundars Maurs (<i>Gundars Maurs</i>) – member of the Board                  Gatis Zommers (<i>Gatis Zommers</i>) – member of the Board</p>
<p>Members of the Council: name, surname, position</p>	<p>Uldis Melrkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council                  Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board                  Maris Elleris (<i>Māria Elleris</i>) – member of the Council                  Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council                  Ainis Dabols (<i>Ainis Dābols</i>) – member of the Council</p>
<p>Subsidiary enterprise                  1. Name of the company                  Legal status of the company                  NUMBER AND DATE OF REGISTRATION IN THE                  COMMERCIAL REGISTER                  Address                  The main areas of activities of the company                  Owner of the company                  Reporting year</p>	<p><i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>                  Limited Liability Company                  48503009010 November 21, 2002                  “Mežvidi”, Novadnieku pag. Saldus rajons LV 3801                  Hunting and related services. Organisation of training and competitive shooting using hunting weapons.                  Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%                  January 1 – June 30, 2011</p>
<p>2. Name of the company                  Legal status of the company                  Registration number, date, place                  Address                  The main areas of activities of the company                  Owner of the company                  Reporting year</p>	<p>Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>)                  (100%)                  Limited Liability Company                  (ООО - Общество с ограниченной ответственностью)                  1066027046337 October 9, 2006                  Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А                  Woodworking, production of board lumber                  Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%                  January 1 – June 30, 2011</p>
<p>3. Name of the company                  Legal status of the company                  Registration number, date, place                  Address                  The main areas of activities of the company                  Owner of the company                  Reporting year</p>	<p>Saldus (<i>Салдус</i>) (100%)                  Limited Liability Company                  (ООО - Общество с ограниченной ответственностью)                  1056000426371 21. December 2005                  Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А                  Purchase of lumber                  Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%                  January 1 – June 30, 2011</p>

## Management announcement

### *To Report of economic activity for the of 6 months of year 2011*

#### **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.

From the mid-year of 2009, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

Profit of A/s „Saldus mežrūpniecība” for the of 6 months of year 2011 are 156 282 LVL at the net turnover of 13 276 674 LVL, which means profit on one share issued of 0.40 LVL.

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

#### **Important events after the end of year of account**

From the end of period of account until the moment of approval of the report, there were no significant events that could make impact on the financial position of the holding that was fixed in the finance report.

#### **Forecasts for financial statements and operational plans of 2011**

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.

Due to political events in the Near East at the moment demand for sawn timber in the region has decreased, which was the target supply region of the company.

Production and sale volumes in forestry in 2011 are planned to reach 350 000m<sup>3</sup> per year. The planned volume of sawn timber products production and sale is 200 000 m<sup>3</sup> per year.

#### **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 the growing demand in the timber market is taken into account. 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

August 31.2011

Valde:

Jānis Bertrāns  
valdes priekšsēdētājs

Jānis Mierkalns  
valdes loceklis

Gundars Maurs  
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 2011, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant Latvian 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

Piezīme	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	LVL	LVL	EUR	EUR
Net turnover	13 276 674	8 202 511	18 891 005	11 671 122
Production costs of the sold production	(12 253 137)	(7 362 544)	(17 434 643)	(10 475 956)
<b>Gross profit</b>	<b>1 023 537</b>	<b>839 967</b>	<b>1 456 362</b>	<b>1 195 165</b>
Selling costs	(807 367)	(612 584)	(1 148 780)	(871 629)
General administration costs	(72 411)	(70 786)	(103 032)	(100 719)
Other income from company's economic activity	299 337	184 302	425 918	262 238
Other expenditures from company's economic activity	(215 460)	(186 293)	(306 572)	(265 071)
<b>Profit or loss from economic activity</b>	<b>227 636</b>	<b>154 606</b>	<b>323 897</b>	<b>219 985</b>
Other interest income and the like income	-	-	-	-
Other interest payments and the like payments	(63 431)	(77 744)	(90 254)	(110 620)
<b>Profit or loss before extraordinary items and taxes</b>	<b>164 205</b>	<b>76 862</b>	<b>233 643</b>	<b>109 365</b>
Extraordinary income	-	-	-	-
Extraordinary expenditures	-	-	-	-
<b>Profit or loss before taxes</b>	<b>164 205</b>	<b>76 862</b>	<b>233 643</b>	<b>109 365</b>
Company's income tax	-	-	-	-
Company's deferred income tax	-	-	-	-
Other taxes	(7 923)	(1 618)	(11 273)	(2 302)
<b>Profit or (loss)</b>	<b>156 282</b>	<b>75 244</b>	<b>222 369</b>	<b>107 063</b>
<b>Profit/ (loss) per share</b>				
<i>lats per share / EUR per share</i>	<b>0.40</b>	<b>0.19</b>	<b>0.57</b>	<b>0.28</b>

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns  
valdes priekšsēdētājs

Jānis Mierkalns  
valdes loceklis

Gundars Maurs  
valdes loceklis

Gatis Zommers  
valdes loceklis

## Balance sheet

	Note	30.06.2011 LVL	31.12.2010 LVL	30.06.2011 EUR	31.12.2010 EUR
<b>LONG-TERM INVESTMENTS</b>					
<b>Intangible investments</b>					
Concessions, patents, licences, trademarks and the like items		14 225	17 837	20 240	25 380
Company's intangible value		-	-	-	-
Advance payments for intangible investments					
<b>TOTAL</b>		<b>14 225</b>	<b>17 837</b>	<b>20 240</b>	<b>25 380</b>
<b>Fixed assets</b>					
Land, premises and buildings		2 725 414	2 781 578	3 877 915	3 957 829
Equipment and machinery		928 514	1 140 975	1 321 156	1 623 461
Other fixed assets		18 246	18 205	25 962	25 903
Unfinished constructions		1 017 244	836 041	1 447 408	1 189 579
Advance payments for fixed assets		4 417 059	1 405 810	6 284 909	2 000 287
<b>TOTAL</b>		<b>9 106 477</b>	<b>6 182 609</b>	<b>12 957 349</b>	<b>8 797 060</b>
<b>Biological assets</b>		<b>636 134</b>	<b>636 134</b>	<b>905 137</b>	<b>905 137</b>
<b>Long-term financial investments</b>					
Participation in the capital of related companies		415 142	415 142	590 694	590 694
Loans to the related companies		752 812	731 541	1 071 155	1 040 889
<b>TOTAL</b>		<b>1 167 954</b>	<b>1 146 683</b>	<b>1 661 849</b>	<b>1 631 583</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>		<b>10 924 790</b>	<b>7 983 263</b>	<b>15 544 576</b>	<b>11 359 160</b>
<b>CURRENT ASSETS</b>					
<b>Stocks</b>					
Raw materials, direct materials, auxiliary materials		69 569	39 313	98 988	55 937
Biological assets		337 995	337 995	480 924	480 924
Unfinished production		1 739 909	2 843 643	2 475 667	4 046 139
Finished production and goods for sale		242 395	142 978	344 897	203 439
Advance payments for goods		124 742	160 055	177 492	227 738
Advance payments for goods of subsidiaries		66 956		95 270	
<b>TOATL</b>		<b>2 581 566</b>	<b>3 523 984</b>	<b>3 673 237</b>	<b>5 014 177</b>
<b>Noncurrent assets held for sale</b>					
Fixed assets held for sale		210 197	210 197	299 083	299 083
<b>Debtors</b>					
Debts of buyers and customers		1 099 150	371 737	1 563 950	528 934
Debts of subsidiaries		42 524	42 524	60 506	60 506
Other debtors		139 392	141 894	198 337	201 897
Expenditures of the next periods		50 638	37 510	72 051	53 372
<b>TOTAL</b>		<b>1 331 704</b>	<b>593 665</b>	<b>1 894 844</b>	<b>844 709</b>
<b>Money and its equivalents</b>		12 375	8 536	17 608	12 146
<b>TOTAL CURRENT ASSETS</b>		<b>4 135 842</b>	<b>4 336 382</b>	<b>5 884 773</b>	<b>6 170 116</b>
<b>TOTAL ASSETS</b>		<b>15 060 632</b>	<b>12 319 645</b>	<b>21 429 349</b>	<b>17 529 276</b>

The annex is an integral part of this financial statement.

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## Balance sheet (continuation)

Shareholders'equity and liabilities	Note	30.06.2011 LVL	31.12.2010 LVL	30.06.2011 EUR	31.12.2010 EUR
<b>Shareholders'equity</b>					
Share capital		387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	802 492	1 141 843	1 141 843
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previos year		(100 796)	61 949	(143 420)	88 145
Retained earnings from the year of account		156 282	(162 745)	222 369	(231 565)
<b>TOTAL</b>		<b>3 870 186</b>	<b>3 713 904</b>	<b>5 506 779</b>	<b>5 284 409</b>
<b>Total shareholders'equity</b>		<b>3 870 186</b>	<b>3 713 904</b>	<b>5 506 779</b>	<b>5 284 409</b>
<b>Liabilities</b>					
<b>Long-term liabilities</b>					
Deferred company's income tax		88 848	88 848	126 419	126 419
Long-term loans from credit institutions		755 125	820 310	1 074 446	1 167 196
Long-term part of financial lease liabilities		36 910	84 051	52 518	119 594
Other creditors		925 359	925 359	1 316 667	1 316 667
Long-term part of incomes from next periods		498 673	540 393	709 548	768 910
<b>TOTAL</b>		<b>2 304 915</b>	<b>2 458 961</b>	<b>3 279 599</b>	<b>3 498 786</b>
<b>Short-term liabilities</b>					
Short-term loans from credit institutions		3 290 792	2 243 190	4 682 375	3 191 772
Short-term part of financial lease		107 225	138 199	152 567	196 639
Advance payments received from buyers		632 524	-	900 001	-
Debts to suppliers and contractors		4 294 673	3 459 618	6 110 769	4 922 593
Liabilities provisions		-	17 041	-	24 247
Accured liabilities		119 527	119 527	170 072	170 072
Taxes payable		324 501	93 499	461 723	133 037
Other creditors		77 648	59 465	110 483	84 611
Incomes from the next periods short-term part		38 641	16 241	54 981	23 109
Unpaid dividends from the previous years		-	-	-	-
<b>TOTAL</b>		<b>8 885 531</b>	<b>6 146 780</b>	<b>12 642 972</b>	<b>8 746 080</b>
<b>Total liabilities</b>		<b>11 190 446</b>	<b>8 605 741</b>	<b>15 922 570</b>	<b>12 244 866</b>
<b>Total shareholders'equity and liabilities</b>		<b>15 060 632</b>	<b>12 319 645</b>	<b>21 429 349</b>	<b>17 529 276</b>

The annex is an integral part of this financial statement

Valde:

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valdes loceklis



## Cash flow statement

Cash flow from basic activity	30.06.2011	30.06.2010	30.06.2011	30.06.2010
	LVL	LVL	EUR	EUR
<b>Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>164 205</b>	<b>76 862</b>	<b>233 643</b>	<b>109 365</b>
wear and tear of fixed assets and intangible investments (+)	278 822	278 691	396 728	396 542
elimination of fixed assets and intangible investments	-	-	-	-
formation of accruals (except for the accruals for insecure debts)	-	-	-	-
profit (-) or loss (+) from fluctuations of exchange rate	-	1 348	-	1 918
income from the acknowledgement of financing	(19 320)	-	(27 490)	-
revaluation of long-term investments	-	-	-	-
revaluation of biological assets	-	-	-	-
interest payments and the like expenditures	63 431	77 744	90 254	110 620
<b>Profit or loss before the corrections of the impact of balance changes</b>	<b>487 138</b>	<b>434 645</b>	<b>693 135</b>	<b>618 444</b>
increase (+) or decrease (-) of debtors debt	(738 039)	(719 934)	(1 050 135)	(1 024 374)
increase (+) or decrease (-) of the reserves of accruals	942 418	(76 197)	1 340 940	(108 419)
increase (+) or decrease (-) of the remainder of debts payable to	1 690 087	1 437 769	2 404 777	2 045 761
<b>Gross cash flow from basic activity</b>	<b>2 381 604</b>	<b>1 076 283</b>	<b>3 388 717</b>	<b>1 531 413</b>
Expenditures to pay interest payments	(63 431)	(77 744)	(90 254)	(110 620)
Expenditures to pay company's income tax and immovable property tax	(7 923)	(1 618)	(11 273)	(2 302)
<b>Cash flow before extraordinary items</b>	<b>2 310 250</b>	<b>996 921</b>	<b>3 287 190</b>	<b>1 418 491</b>
<b>Net cash flow from basic activity</b>	<b>2 310 250</b>	<b>996 921</b>	<b>3 260 440</b>	<b>1 659 784</b>
<b>Cash flow from investments</b>				
Loans repayments	-	-	-	-
Acquisition of fixed assets and intangible investments	(21 271)	(64 780)	(30 266)	(92 174)
Expenditures for advance payments for fixed assets and unfinished	(6 625)	(32 714)	(9 427)	(46 548)
Income from selling fixed assets and intangible investments	(3 182 817)	(711 712)	(4 528 741)	(1 012 675)
Interest received	-	-	-	-
<b>Net cash flow from investments</b>	<b>(3 210 713)</b>	<b>(809 206)</b>	<b>(4 568 433)</b>	<b>(1 151 396)</b>
<b>Cash flow from financing activities</b>				
Loans received	1 052 629	-	1 497 756	-
Loans repayments credit institutions	(148 327)	(201 917)	(211 050)	(287 302)
EU financing received	-	-	-	-
Received investments in capital	-	-	-	-
Expenditures for paying back loans	-	-	-	-
Expenditures for redemption of asset that was hired	-	-	-	-
Paid out dividends	-	-	-	-
<b>Net cash flow from financing activities</b>	<b>904 302</b>	<b>(201 917)</b>	<b>1 286 706</b>	<b>(287 302)</b>
<b>The result of the exchange rate fluctuations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net cash flow of the year of account increase (+), decrease (-)</b>	<b>3 839</b>	<b>(14 202)</b>	<b>5 462</b>	<b>(655 389)</b>
Money and its equivalents balance at the beginning of the year of account	8 536	17 598	12 146	25 040
Money and its equivalents balance at the end of the year of account	12 375	3 396	17 608	4 832

The annex is an integral part of this financial statement

Valde:

Jānis Bertrāns

Jānis Mierkalns

Gundars Maurs

Gatis Zommers

Joint-stock company „Saldus mežrūpniecība”  
Address: Kuldigas 86c, Saldus, LV-3801,  
Saldus District., Republic of Latvia  
Single registration number: 40003020121

Annual Report for the of 6 months of year 2011

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valdes priekšsēdētājs

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## 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	Total own capital
	LVL	LVL	LVL	LVL		LVL	LVL
<b>December 31, 2009</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>(28 125)</b>	<b>90 074</b>	<b>3 876 649</b>
Distribution of profit of the year 2009	-	-	-	-	90 074	(90 074)	-
Revaluation reserves	-	-	-	-	-	-	-
Paid out dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(162 745)	(162 745)
<b>December 31, 2010</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>61 949</b>	<b>(162 745)</b>	<b>3 713 904</b>
Distribution of the year 2010 profit	-	-	-	-	(162 745)	162 745	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	156 282	156 282
<b>June 31, 2011</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>(100 796)</b>	<b>156 282</b>	<b>3 870 186</b>
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2009</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>(40 018)</b>	<b>128 164</b>	<b>5 515 975</b>
Distribution of the year 2008 profit	-	-	-	-	128 164	(128 164)	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	(231 565)	(231 565)
<b>December 31, 2010</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>88 145</b>	<b>(231 565)</b>	<b>5 284 409</b>
Distribution of the year 2010 profit	-	-	-	-	(231 565)	231 565	-
Revaluation reserves	-	-	-	-	-	-	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	222 369	222 369
<b>June 31, 2011</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>(143 420)</b>	<b>222 369</b>	<b>5 506 779</b>

The annex is an integral part of this financial statement

Valde:

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## 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 and Latvian Accounting Standards issued by the Accounting Council of the Republic of Latvia Ministry of Finance 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 2011 through 30 June 2011.

#### ***Use of calculations (continuation)***

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

#### ***Decrease of the value of assets***

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

#### ***Foreign currency translation***

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

Currency exchange rates established by the Bank of Latvia:.

	30.06.2011	31.12.2010
	LVL	LVL
1 RUB	0.0174	0.01760
1 EUR	0,702804	0,702804

#### ***Intangible investment***

Intangible assets include software licences used in the company, intangible value and other intangible assets concerned with operations of the Group Holding company or Group subsidiary.

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. See Paragraph 12 of the Annex.

## 2. Summary of significant accounting policies (continuation)

### ***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	-20 years (starting from 01.01.2008.)
Equipment and machinery	- 10 years
Forestry equipment	- 5 years ( starting from 01.01.2007.)
Timber processing lines	- 5 years ( starting from 01.01.2007.)
Other property, plant and equipment	- 5 years
Data processing and storage equipment, software	- 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.

Movement of company property, plant and equipment is shown in the Paragraph 14 of the Annex.

### ***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 2010 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 2010 and that is LVL 16.72 per m<sup>3</sup>. 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

## **2. Summary of significant accounting policies (cont'd)**

### **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:

## **2. Summary of significant accounting policies (cont'd)**

### *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. More detailed information on spread of share capital is given in the Note 21.

## **Accruals and deferred liabilities**

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

## 2. Summary of significant accounting policies (cont'd)

### 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

	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	4 321 321	4 178 025	8 470 892	3 629 176	484 461	395 310	13 276 674	8 202 511
Production costs of sold products	(3 439 316)	(3 529 594)	(8 576 433)	(3 589 583)	(237 388)	(243 367)	(12 253 137)	(7 362 544)
Selling costs	(475 246)	(357 739)	(9 253)	(2 915)	(322 868)	(251 930)	(807 367)	(612 584)
General administration costs	(2 355)	(2 243)	(4 357)	(1 793)	(65 699)	(66 750)	(72 411)	(70 786)
Other incomes/expenditures from economic activity	47 948	42 727	124 283	51 644	(88 354)	(96 362)	83 877	(1 991)
<b>Segment profit</b>	<b>452 352</b>	<b>331 176</b>	<b>5 132</b>	<b>86 529</b>	<b>(229 848)</b>	<b>(263 099)</b>	<b>227 636</b>	<b>154 606</b>
Financial expenditures, net	(3 757)	(27 088)	(8 495)	(5 253)	(51 179)	(45 403)	(63 431)	(77 744)
Company income tax (undistributable)	-	-	-	-	-	-	-	-
Other taxes	-	-	(2 564)	-	(5 359)	(1 618)	(7 923)	(1 618)
<b>Net result</b>	<b>448 595</b>	<b>304 088</b>	<b>(5 927)</b>	<b>81 276</b>	<b>(286 386)</b>	<b>(310 120)</b>	<b>156 282</b>	<b>75 244</b>
Segment assets	6 927 891	5 826 863	7 379 710	3 661 490	753 032	2 329 325	15 060 633	11 817 678
Segment liabilities	6 024 253	5 244 177	6 777 284	3 496 118	2 259 095	3 077 383	15 060 633	11 817 678
	<b>logging</b>		<b>timber processing</b>		<b>Other and undistributable</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	6 148 686	5 944 794	12 052 993	5 163 852	689 326	562 475	18 891 005	11 671 122
Production costs of sold products	(4 893 706)	(5 022 160)	(12 203 165)	(5 107 516)	(337 773)	(346 280)	(17 434 643)	(10 475 956)
Selling costs	(676 214)	(509 017)	(13 166)	(4 148)	(459 400)	(358 464)	(1 148 780)	(871 629)
General administration costs	(3 351)	(3 192)	(6 199)	(2 551)	(93 481)	(94 977)	(103 032)	(100 719)
Other incomes/expenditures from economic activity	68 224	60 795	176 839	73 483	(125 716)	(137 111)	119 346	(2 833)
<b>Segment profit</b>	<b>643 639</b>	<b>471 221</b>	<b>7 302</b>	<b>123 120</b>	<b>(327 044)</b>	<b>(374 356)</b>	<b>323 897</b>	<b>219 985</b>
Financial expenditures, net	(5 346)	(38 543)	(12 087)	(7 474)	(72 821)	(64 603)	(90 254)	(110 620)
Company income tax	-	-	-	-	-	-	-	-
Other taxes	-	-	(3 648)	-	(7 625)	(2 302)	(11 273)	(2 302)
<b>Net result</b>	<b>638 293</b>	<b>432 678</b>	<b>(8 433)</b>	<b>115 645</b>	<b>(407 491)</b>	<b>(441 261)</b>	<b>222 369</b>	<b>107 063</b>
Segment assets	9 857 501	8 290 879	10 500 381	5 209 831	1 071 468	3 314 331	21 429 350	16 815 041
Segment liabilities	8 571 740	7 461 792	9 643 206	4 974 528	3 214 403	4 378 722	21 429 350	16 815 041



**3. Segments of the Holding activities (continuation)**

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.

	<b>30.06.2011</b>	<b>30.06.2010</b>	<b>30.06.2011</b>	<b>30.06.2010</b>
	LVL	LVL	EUR	EUR
Income from sales, int. Al.	12 405 689	7 817 380	17 651 705	11 123 130
Latvia	12 405 689	7 817 380	17 651 705	11 123 130
the EU countries			0	0
Other countries			1 239 300	0
Income from rendering of services, int. Al.	870 985	385 131	1 239 300	547 992
Latvia	870 985	385 131	1 239 300	547 992
Other countries			0	
	<b>13 276 674</b>	<b>8 202 511</b>	<b>18 891 005</b>	<b>11 671 122</b>