

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF YEAR 2011

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2011

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Address: Mežvidi, Novadnieki Parish., LV-3801,
Saldus District., Republic of Latvia
Single registration number: 40003020121

Information about the Company

| | |
|--|--|
| <p>Name of the Company Legal status of the Company Registration number, place, and date Address</p> | <p>Saldus Timber Wood Industry (Saldus mežrūpniecība) Joint Stock Company 40003020124 August 26, 1991, Riga 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 Merkals (<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 Melrkals (<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 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> |
| <p>Name and address of the Auditor</p> | <p>(Translated from Latvian) Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.127</p> |

Management announcement

To Consolidated 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 2010, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

The consolidated profit of the holding JSC „Saldus mežrūpniecība” from the of 6 months of year 2011 from economic activities profits is 92059 LVL, whereby Net turnover is 13 278 502 LVL, which comprise profits per emitted share 0, 24 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.

Important events after the end of year of account

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

Forecasts for financial indicators and plans for economic activities in 2011

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.

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 000m³ per year. The planned volume of sawn timber products production and sale is 200 000 m³ 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

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
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 March 2011, 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 | 30.06.2011 LVL | 30.06.2010 LVL | 30.06.2011 EUR | 30.06.2010 EUR |
|---|------|-------------------|-------------------|-------------------|-------------------|
| Net turnover | | 13 278 502 | 8 212 032 | 18 893 606 | 11 684 669 |
| Production costs of the sold production | | (12 253 332) | (7 390 722) | (17 434 921) | (10 516 050) |
| Gross profit | | 1 025 170 | 821 310 | 1 458 685 | 1 168 619 |
| Selling costs | | (828 519) | (626 420) | (1 178 876) | (891 315) |
| General administration costs | | (96 477) | (90 421) | (137 274) | (128 657) |
| Other income from company's economic activity | | 301 652 | 286 441 | 429 212 | 407 569 |
| Other expenditures from company's economic activity | | (218 326) | (271 835) | (310 650) | (386 786) |
| Profit or loss from economic activity | | 183 500 | 119 075 | 261 097 | 169 428 |
| Othe interest payments and the like payments | | (78 020) | (27 708) | (111 012) | (39 425) |
| Profit or loss before extraordinary items and taxes | | 105 480 | 91 367 | 150 085 | 130 004 |
| Profit or loss before taxes | | 105 480 | 91 367 | 150 085 | 130 004 |
| Company's deferred income tax | | - | - | - | - |
| Other taxes | | (13 421) | (9 405) | (19 096) | (13 382) |
| Profit or (loss) | | 92 059 | 81 962 | 130 988 | 116 621 |
| Other incomes (in the review year) that are not shown in the profit and loss account. | | - | - | - | - |
| Profit/ (loss) per share | | 92 059 | 81 962 | 130 988 | 116 621 |
| LVL per share / EUR per share | | 0.24 | 0.21 | 0.34 | 0.30 |

The annex is an integral part of this financial statement

Board :

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated balance sheet

| ASSETS | Note | 30.06.2011 LVL | 31.12.2010 LVL | 30.06.2011 EUR | 31.12.2010 EUR |
|---|------|-------------------|-------------------|-------------------|-------------------|
| LONG-TERM INVESTMENTS | | | | | |
| Intangible investments | | | | | |
| Concessions, patents, licences, trademarks and the like | | 27 704 | 34 202 | 39 419 | 48 665 |
| Company's intangible value | | 178 200 | 22 834 | 253 556 | 32 490 |
| Advance payments for intangible investments | | - | - | - | - |
| TOTAL | | 205 904 | 57 036 | 292 975 | 81 155 |
| Fixed assets | | | | | |
| Land, premises and buildings | | 3 295 323 | 2 835 210 | 4 688 822 | 4 034 140 |
| Equipment and machinery | | 1 014 804 | 1 236 146 | 1 443 936 | 1 758 877 |
| Other fixed assets | | 18 390 | 18 468 | 26 167 | 26 278 |
| Unfinished constructions | | 1 167 558 | 1 458 255 | 1 661 285 | 2 074 910 |
| Advance payments for fixed assets | | 4 417 059 | 1 405 810 | 6 284 909 | 2 000 287 |
| TOTAL | | 9 913 134 | 6 953 889 | 14 105 119 | 9 894 493 |
| Biological assets | | 636 134 | 636 134 | 905 137 | 905 137 |
| TOTAL LONG-TERM INVESTMENTS | | 10 755 172 | 7 647 059 | 15 303 231 | 10 880 785 |
| CURRENT ASSETS | | | | | |
| Stocks | | | | | |
| Raw materials, direct materials, auxiliary materials | | 231 713 | 245 536 | 329 698 | 349 366 |
| 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 | | 290 078 | 191 209 | 412 744 | 272 066 |
| Advance payments for goods | | 91 532 | 123 085 | 130 238 | 175 134 |
| TOATL | | 2 691 227 | 3 741 468 | 3 829 271 | 5 323 629 |
| Noncurrent assets held for sale | | | | | |
| Fixed assets held for sale | | 210 197 | 210 197 | 299 083 | 299 083 |
| Debtors | | | | | |
| Debts of buyers and customers | | 1 121 884 | 279 591 | 1 596 297 | 397 822 |
| Accrued income | | 1 210 | 1 224 | 1 722 | 1 742 |
| Other debtors | | 243 946 | 230 048 | 347 104 | 327 329 |
| Expenditures of the next periods | | 266 059 | 304 093 | 378 568 | 432 685 |
| TOTAL | | 1 633 099 | 814 956 | 2 323 691 | 1 159 578 |
| Money and its equivalents | | 30 338 | 98 445 | 43 167 | 140 075 |
| TOTAL CURRENT ASSETS | | 4 564 861 | 4 865 067 | 6 495 212 | 6 922 365 |
| TOTAL ASSETS | | 15 320 033 | 12 512 126 | 21 798 443 | 17 803 150 |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidate balance sheet (continuation)

| Shareholders'equity and liabilities | Note | 30.06.2011 LVL | 31.12.2010. LVL | 30.06.2011 EUR | 31.12.2010. 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 |
| Adjustment reserve of foreign currency | | (73 267) | (48 558) | (104 250) | (69 092) |
| Other reserves | | 2 623 085 | 2 623 085 | 3 732 314 | 3 732 314 |
| Retained earnings from the previous year | | (327 332) | (133 607) | (465 751) | (190 106) |
| Retained earnings from the year of account | | 92 059 | (237 843) | 130 988 | (338 420) |
| TOTAL | | 3 506 160 | 3 394 692 | 4 988 816 | 4 830 212 |
| Total shareholders'equity | | | | | |
| Liabilities | | | | | |
| Long-term liabilities | | | | | |
| Deferred company's income tax | | 88 848 | 88 848 | 126 419 | 126 419 |
| Long-term loans from credit institutions | | 1 048 866 | 1 147 488 | 1 492 402 | 1 632 728 |
| Long-term part of financial lease liabilities | | 58 820 | 84 051 | 83 693 | 119 594 |
| Other creditors | | 925 359 | 947 269 | 1 316 667 | 1 347 842 |
| Long-term part of incomes from next periods | | 498 673 | 540 393 | 709 548 | 768 910 |
| TOTAL | | 2 620 566 | 2 808 049 | 3 728 729 | 3 995 494 |
| Short-term liabilities | | | | | |
| Short-term loans from credit institutions | | 3 303 426 | 2 255 824 | 4 700 352 | 3 209 748 |
| Short-term part of financial lease | | 112 517 | 138 199 | 160 097 | 196 639 |
| Advance payments received from buyers | | 896 079 | 115 125 | 1 275 006 | 163 808 |
| Debts to suppliers and contractors | | 4 308 826 | 3 482 658 | 6 130 907 | 4 955 376 |
| Provisions liabilities | | - | 17 041 | - | 24 247 |
| Accrued liabilities | | 119 527 | 119 527 | 170 072 | 170 072 |
| Taxes payable | | 328 661 | 96 467 | 467 642 | 137 260 |
| Other creditors | | 85 630 | 68 302 | 121 841 | 97 185 |
| Incomes from the next periods short-term part | | 38 641 | 16 241 | 54 981 | 23 109 |
| Unpaid dividends from the previous years | | - | - | - | - |
| TOTAL | | 9 193 307 | 6 309 384 | 13 080 897 | 8 977 445 |
| Total liabilities | | | | | |
| | | 11 813 873 | 9 117 433 | 16 809 627 | 12 972 938 |
| Total shareholders'equity and liabilities | | | | | |
| | | 15 320 033 | 12 512 125 | 21 798 443 | 17 803 150 |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Consolidated cash flow statement

| Cash flow from basic activity | 30.06.2011 | 30.06.2010 | 30.06.2011 | 30.06.2010 |
|--|--------------------|-------------------|--------------------|--------------------|
| | LVL | LVL | EUR | EUR |
| Profit (+) or loss (-) before extraordinary items and taxes: | 105 480 | 91 367 | 150 085 | 130 004 |
| Wear and tear of fixed assets and intangible investments (+) | 268 978 | 305 669 | 382 721 | 434 928 |
| Elimination of fixed assets and intangible investments | 551 | 86 482 | 784 | 123 053 |
| Reevaluation of long-term investments | - | - | - | - |
| Reevaluation of biological assets | - | - | - | - |
| 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) | - |
| Costs of currency exchange | - | - | - | - |
| Interest payments and the like expenditures | 78 020 | 27 708 | 111 012 | 39 425 |
| Profit or loss before the corrections of the impact of balance changes | 433 709 | 512 574 | 617 112 | 729 327 |
| Increase (+) or decrease (-) of the remainder of debts payable | (679 021) | (801 558) | (966 160) | (1 140 514) |
| Increase (+) or decrease (-) of the reserves of accruals | 983 285 | 9 397 | 1 399 089 | 13 371 |
| Increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors | 1 672 438 | 1 420 601 | 2 379 665 | 2 021 333 |
| Gross cash flow from basic activity | 2 410 411 | 1 141 014 | 3 429 706 | 1 623 517 |
| Expenditures to pay interest payments | (74 288) | (27 708) | (105 702) | (39 425) |
| Expenditures to pay company's income tax and immovable property tax | (13 421) | (9 405) | (19 096) | (13 382) |
| Net cash flow from basic activity | 2 322 702 | 1 103 901 | 3 304 907 | 1 570 710 |
| Cash flow from investments | | | | |
| Acquisition of fixed assets and intangible investments | (6 625) | (32 714) | (9 427) | (46 548) |
| Expenditures for advance payments for fixed assets and unfinished constructions | (3 246 012) | (782 367) | (4 618 659) | (1 113 208) |
| Income from selling fixed assets and intangible investments | 2 315 | 16 901 | 3 294 | 24 048 |
| Interest payments and the like expenditures | - | - | - | - |
| Net cash flow from investments | (3 250 322) | (798 180) | (4 624 792) | (1 135 708) |
| Cash flow from financing activities | | | | |
| Loans received | 1 052 629 | 57 216 | 1 497 756 | 81 411 |
| EU financing received | - | - | - | - |
| Loan repayments to credit institutions | - | - | - | - |
| Expenditures for paying back loans | (181 764) | (356 526) | (258 627) | (507 291) |
| Expenditures for redemption of asset that was hired | - | - | - | - |
| Paid out dividends | - | - | - | - |
| Net cash flow from financing activities | 870 865 | (299 310) | 1 239 129 | (425 880) |
| The result of the exchange rate fluctuations | (11 352) | (16 494) | (16 152) | (23 469) |
| Net cash flow of the year of account increase (+), decrease (-) | (68 107) | (10 083) | (96 908) | (14 347) |
| Money and its equivalents balance at the beginning of the year of account | 98 445 | 20 181 | 140 075 | 28 715 |
| Money and its equivalents balance at the end of the year of account | 30 338 | 10 098 | 43 167 | 14 368 |

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Statement on the changes in own capital

| | Share capital | Share premium | Other reserves | Reserves from reestimation on fixed assets | Retained earnings/losses from the previous year | Retained earnings/losses of the year of account | Currency fluctuations due to the reestimation of foreign currency | Total own capital |
|--|----------------|---------------|------------------|--|---|---|---|-------------------|
| | LVL | LVL | LVL | | LVL | LVL | LVL | LVL |
| December 31, 2009 | 387 136 | 1 987 | 2 623 085 | 802 492 | (251 432) | 123 899 | (116 904) | 3 570 263 |
| Currency fluctuations due to recalculation | | | | | (6 078) | | 68 346 | 62 268 |
| Distribution of profit of the year 2009 | | | | | 123 904 | (123 899) | | 5 |
| Disbursed dividends | | | | | | | | - |
| Reserves from reestimation on fixed assets | | | | | | | | - |
| Profit of the year of account | | | | | | (237 843) | | (237 843) |
| December 31, 2010 | 387 136 | 1 987 | 2 623 085 | 802 492 | (133 606) | (237 843) | (48 558) | 3 394 693 |
| Currency fluctuations due to recalculation | | | | | 474 | | (24 709) | (24 235) |
| Reserves from reestimation on fixed assets | - | - | | | | | | - |
| Distribution of the year 2010 profit | - | - | | | (194 200) | 237 843 | | 43 643 |
| Disbursed dividends | - | - | | | | | | - |
| Profit of the year of account | - | - | | | | 92 059 | | 92 059 |
| June 30, 2011 | 387 136 | 1 987 | 2 623 085 | 802 492 | (327 332) | 92 059 | (73 267) | 3 506 160 |

| | Share capital | Share premium | Other reserves | Reserves from reestimation on fixed assets | Retained earnings/losses from the previous year | Retained earnings/losses of the year of account | Currency fluctuations due to the reestimation of foreign currency | Total own capital |
|--|----------------|---------------|------------------|--|---|---|---|-------------------|
| | EUR | EUR | EUR | | EUR | EUR | EUR | EUR |
| December 31, 2009 | 550 845 | 2 827 | 3 732 314 | 1 141 843 | (357 756) | 176 292 | (166 339) | 5 080 027 |
| Currency fluctuations due to recalculation | - | - | - | - | (8 648) | - | 97 248 | 88 599 |
| Distribution of profit of the year 2009 | - | - | - | - | 176 300 | (176 292) | - | 7 |
| Disbursed dividends | - | - | - | - | - | - | - | - |
| Reserves from reestimation on fixed assets | - | - | - | - | - | - | - | - |
| Profit of the year of account | - | - | - | - | - | (338 420) | - | (338 420) |
| December 31, 2010 | 550 845 | 2 827 | 3 732 314 | 1 141 843 | (190 104) | (338 420) | (69 092) | 4 830 213 |
| Currency fluctuations due to recalculation | - | - | - | - | 674 | - | (35 158) | (34 483) |
| Reserves from reestimation on fixed assets | - | - | - | - | - | - | - | - |
| Distribution of the year 2010 profit | - | - | - | - | (276 322) | 338 420 | - | 62 098 |
| Disbursed dividends | - | - | - | - | - | - | - | - |
| Profit of the year of account | - | - | - | - | - | 130 988 | - | 130 988 |
| June 30, 2011 | 550 845 | 2 827 | 3 732 314 | 1 141 843 | (465 751) | 130 988 | (104 250) | 4 988 816 |

Board:

Jānis Bertrāns
Chairman of board

Janis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Annex to the financial statement

1. Corporative information

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

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2009 consolidated report, hereinafter Holding company.

2. Important accounting principles

In preparation of the holding company’s financial statement, there were used the following accounting principles:

Principles of preparing the financial statement

The holding company’s financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statement was prepared in compliance with the Principle of Historical Cost.

Currency and items used in the preparation of the financial statement

In financial statements as a monetary unit is used Latvian lat (Ls)- the monetary unit of the Republic of Latvia.

Consolidation

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., ooo Saldus Les and ooo Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding’s parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūpniecība and its subsidiary companies were one company. In preparation of the Holding’s financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net actives obtained by the Holding is accounted as an intangible value.

Consolidation of foreign subsidiary companies

By including in the financial statements the financial showings of foreign subsidiary companies, the Holding’s parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Holding.

Changes in the accounting principles

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

Application of the International Financial Reporting Standards

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

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

Use of calculations (continuation)

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

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the 000 Saldus and 000 Saldus Łes 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 000 Saldus and 000 Saldus Łes into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

| | 30.06.2011. | 31.12.2010. |
|----------|-------------|-------------|
| RUB/ LVL | 0.01740 | 0.01760 |
| EUR/ LVL | 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 | - 20 years (since 01.01.2008.) |
| Equipment and machinery | - 10 years |
| Forest equipment | - 5 years (since 01.01.2007.) |
| Timber processing lines | - 5 years (since 01.01.2007.) |
| Other capital assets | - 5 years |
| Computing and data gathering devices, software | - 5 years |

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.

The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value can not be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount.

Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Wear and tear for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

Noncurrent assets held for sales

An entity should classify a noncurrent asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition – subject only to terms that are usual and customary for sales of such assets.

An entity should recognize a gain for any subsequent increase in fair value less costs to sell of an asset but not in excess of the cumulative impairment loss that has been previously recognized.

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politics 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 m³. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Decrease of the value of assets

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

Loan costs

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

Lease

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

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

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

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

Share capital

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

Profit per share

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

Credits and loans

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

Further loans will be shown in their depreciation value.

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

Accruals

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

Accruals and deferred liabilities

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

Income recognition

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

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

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

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

Sale of goods

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

Interest

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

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

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

Taxes

Company income tax

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

Deferred company income tax

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

Possible liabilities and assets

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

Allowances

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

Associated persons

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

Events after the end of the year of account

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

3. Segments of the Holding activities

| | logging | | timber processing | | Other and undistributable | | Total | |
|---|----------------|----------------|-------------------|----------------|---------------------------|------------------|----------------|----------------|
| | 30.06.2011 | 30.06.2010 | 30.06.2011 | 30.06.2010 | 30.06.2011 | 30.06.2010 | 30.06.2011 | 30.06.2010 |
| | LVL | LVL | LVL | LVL | LVL | LVL | LVL | LVL |
| Net turnover | 4 321 321 | 4 179 638 | 8 472 720 | 3 637 084 | 484 461 | 395 310 | 13 278 502 | 8 212 032 |
| Production costs of sold products | (3 439 316) | (3 531 162) | (8 576 433) | (3 615 495) | (237 583) | (244 065) | (12 253 332) | (7 390 722) |
| Selling costs | (475 736) | (357 739) | (29 915) | (16 751) | (322 868) | (251 930) | (828 519) | (626 420) |
| General administration costs | (3 356) | (3 814) | (27 406) | (19 813) | (65 715) | (66 794) | (96 477) | (90 421) |
| Other incomes/expenditures from economic activity | 47 948 | 42 727 | 123 732 | 68 361 | (88 354) | (96 482) | 83 326 | 14 606 |
| Segment profit | 450 861 | 329 650 | (37 302) | 53 386 | (230 059) | (263 961) | 183 500 | 119 075 |
| Financial expenditures, net | (4 313) | (43 179) | (21 850) | 61 536 | (51 857) | (46 064) | (78 020) | (27 707) |
| Company income tax (undistributable) | | | | | - | - | - | - |
| Other taxes | (50) | (55) | (7 855) | (7 732) | (5 516) | (1 618) | (13 421) | (9 405) |
| Net result | 446 498 | 286 416 | (67 007) | 107 190 | (287 432) | (311 643) | 92 059 | 81 963 |
| Segment assets | 7 018 836 | 5 942 339 | 7 353 968 | 5 023 999 | 947 229 | 1 168 561 | 15 320 033 | 12 134 899 |
| Segment liabilities | 6 115 198 | 5 359 653 | 6 751 542 | 3 858 627 | 2 453 293 | 2 916 619 | 15 320 033 | 12 134 899 |

| | logging | | timber processing | | Other | | Total | |
|---|----------------|----------------|-------------------|----------------|------------------|------------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Net turnover | 6 148 686 | 5 947 089 | 12 055 594 | 5 175 104 | 689 326 | 562 475 | 18 893 606 | 11 684 669 |
| Production costs of sold products | (4 893 706) | (5 024 391) | (12 203 165) | (5 144 386) | (338 050) | (347 273) | (17 434 921) | (10 516 050) |
| Selling costs | (676 911) | (509 017) | (42 565) | (23 835) | (459 400) | (358 464) | (1 178 876) | (891 315) |
| General administration costs | (4 775) | (5 427) | (38 995) | (28 191) | (93 504) | (95 039) | (137 274) | (128 657) |
| Other incomes/expenditures from economic activity | 68 224 | 60 795 | 176 055 | 97 269 | (125 716) | (137 282) | 118 562 | 20 782 |
| Segment profit | 641 517 | 469 050 | (53 076) | 75 961 | (327 344) | (375 583) | 261 097 | 169 428 |
| Financial expenditures, net | (6 137) | (61 438) | (31 090) | 87 558 | (73 786) | (65 543) | (111 012) | (39 424) |
| Company income tax | - | - | - | - | - | - | - | - |
| Other taxes | (71) | (78) | (11 177) | (11 002) | (7 849) | (2 302) | (19 096) | (13 382) |
| Net result | 635 309 | 407 533 | (95 342) | 152 518 | (408 979) | (443 428) | 130 988 | 116 623 |
| Segment assets | 9 986 904 | 8 455 187 | 10 463 754 | 7 148 507 | 1 347 785 | 1 662 713 | 21 798 443 | 17 266 406 |
| Segment liabilities | 8 701 143 | 7 626 099 | 9 606 579 | 5 490 332 | 3 490 721 | 4 149 975 | 21 798 443 | 17 266 406 |

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.

| | 30.06.2011 | 30.06.2010 | 30.06.2011 | 30.06.2010 |
|---|-------------------|------------------|-------------------|-------------------|
| | LVL | LVL | EUR | EUR |
| Income from sales, int. Al. | 12 405 689 | 7 825 288 | 17 651 705 | 11 134 382 |
| Latvia | 12 405 689 | 7 817 380 | 17 651 705 | 11 123 130 |
| Russia | | | 0 | 0 |
| the EU countries | | | 0 | 0 |
| Income from rendering of services, int. Al. | 872 813 | 386 744 | 1 241 901 | 550 287 |
| Latvia | 870 985 | 385 131 | 1 239 300 | 547 992 |
| Russia | 1 828 | 1 613 | 2 601 | 2 295 |
| | 13 278 502 | 8 212 032 | 18 893 606 | 11 684 669 |

