

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

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 3 MONTHS OF 2012 (UNAUDITED)**

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS

**Saldus, 2012**

## CONTENT

<b>Information about the Company</b>	<b>3</b>
<b>Management announcement</b>	<b>4</b>
<b>Statement of Management Responsibility</b>	<b>5</b>
<b>Consolidated income statement</b>	<b>6</b>
<b>Consolidated balance sheet</b>	<b>7</b>
<b>Consolidate balance sheet (continuation)</b>	<b>8</b>
<b>Consolidated cash flow statement</b>	<b>9</b>
<b>Statement on the changes in own capital</b>	<b>10</b>
<b>Annex to the financial statement</b>	<b>11</b>
<b>Auditor's statement</b>	Error! Bookmark not defined.

## Information about the Company

Name of the Company	<b>Saldus Timber Wood Industry (Saldus mežrūpniecība)</b>
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns ( <i>Jānis Bertrāns</i> ) – Chancellor of the Board Janis Merkalns ( <i>Jānis Mierkalns</i> ) – member of the Board Gundars Maurs ( <i>Gundars Maurs</i> ) – member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) – member of the Board
Members of the Council: name, surname, position	Uldis Merkalns ( <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
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – March 31, 2012
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, 2012
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, 2012
Name and address of the Auditor	(Translated from Latvian) Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.127

## **Management announcement**

### ***To Consolidated report of economic activity for 2012***

#### **Business description in the framework of report period**

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

The consolidated profit of the holding JSC „Saldus mežrūpniecība” of year 2012 first 3 months from economic activities profits is 108 858 LVL, whereby Net turnover is 5 896 843 LVL, which comprise profits per emitted share 0,28 LVL.

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

#### **Forecasts for financial indicators and plans for economic activities in 2012**

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

#### **Business and financial risk management policy**

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

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

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

May 31, 2012

---

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 2012, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

## Consolidated income statement

	31.03.2012	31.03.2011	31.03.2012	31.03.2011
	LVL	LVL	EUR	EUR
Net turnover	5 896 843	6 402 840	8 390 452	9 110 421
Production costs of the sold production	-5 335 386	-5 899 428	-7 591 570	-8 394 130
<b>Gross profit</b>	<b>561 457</b>	<b>503 412</b>	<b>798 881</b>	<b>716 291</b>
Selling costs	-428 502	-359 351	-609 703	-511 310
General administration costs	-52 548	-40 153	-74 769	-57 133
Other income from company's economic activity	211 401	130 918	300 797	186 280
Other expenditures from company's economic activity	-137 509	-92 841	-195 658	-132 101
Profit or loss from economic activity	<b>154 299</b>	<b>141 985</b>	<b>219 548</b>	<b>202 026</b>
Other interest income and the like income	146	0	208	0
Other interest payments and the like payments	-45 587	-27 159	-64 864	-38 644
<b>Profit or loss before extraordinary items and taxes</b>	<b>108 858</b>	<b>114 826</b>	<b>154 891</b>	<b>163 383</b>
Other taxes		-6 773	0	-9 637
<b>Profit or (loss)</b>	<b>108 858</b>	<b>108 053</b>	<b>154 891</b>	<b>153 746</b>
Profit/loss on share	<b>0.28</b>	<b>0.28</b>	<b>0.40</b>	<b>0.40</b>
lats per share/EUR per share				

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

<b>ASSETS</b>	<b>31.03.2012</b>	<b>31.12.2011</b>	<b>31.03.2012</b>	<b>31.12.2011</b>
	<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
<b>LONG-TERM INVESTMENTS</b>				
<b>Intangible investments</b>				
Concessions, patents, licences, trademarks and the like items	18 028	20 647	25 652	29 378
Goodwill	222 863	201 034	317 105	286 046
TOTAL	<b>240 891</b>	<b>221 681</b>	<b>342 757</b>	<b>315 424</b>
<b>Fixed assets</b>				
Land, premises and buildings	4 069 937	4 056 025	5 790 999	5 771 204
Equipment and machinery	3 118 857	3 221 163	4 437 734	4 583 302
Other fixed assets	47 272	51 333	67 262	73 040
Unfinished constructions	199 079	227 948	283 264	324 341
Advance payments for fixed assets	3 598 675	3 335 699	5 120 453	4 746 272
TOTAL	<b>11 033 820</b>	<b>10 892 168</b>	<b>15 699 711</b>	<b>15 498 159</b>
<b>Biological assets</b>				
	<b>677 492</b>	<b>677 492</b>	<b>963 984</b>	<b>963 984</b>
<b>Long-term financial investments</b>				
Deferred company's income tax	26 282	26 212	37 396	37 296
TOTAL	<b>26 282</b>	<b>26 212</b>	<b>37 396</b>	<b>37 296</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>11 978 485</b>	<b>11 817 553</b>	<b>17 043 849</b>	<b>16 814 863</b>
<b>CURRENT ASSETS</b>				
<b>Stocks</b>				
Raw materials, direct materials, auxiliary materials	234 797	175 916	334 086	250 306
Biological assets	399 707	399 707	568 732	568 732
Unfinished production	1 488 623	1 248 415	2 118 120	1 776 335
Finished production and goods for sale	257 174	612 075	365 926	870 904
Advance payments for goods	36 299	35 235	51 649	50 135
TOTAL	<b>2 416 600</b>	<b>2 471 348</b>	<b>3 438 512</b>	<b>3 516 411</b>
<b>Noncurrent assets held for sale</b>				
Fixed assets held for sale	<b>89 654</b>	<b>89 654</b>	<b>127 566</b>	<b>127 566</b>
<b>Debtors</b>				
Debts of buyers and customers	130 977	300 057	186 363	426 943
Debts of subsidiaries		25 116	0	35 737
Other debtors	104 244	121 568	148 326	172 976
Expenditures of the next periods	284 349	243 708	404 592	346 765
TOTAL	<b>519 570</b>	<b>690 449</b>	<b>739 282</b>	<b>982 420</b>
<b>Money and its equivalents</b>				
	20 398	5 026	29 024	7 151
<b>TOTAL CURRENT ASSETS</b>	<b>3 046 222</b>	<b>3 256 477</b>	<b>4 334 383</b>	<b>4 633 549</b>
<b>TOTAL ASSETS</b>	<b>15 024 707</b>	<b>15 074 030</b>	<b>21 378 232</b>	<b>21 448 412</b>

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)

LIABILITIES	31.03.2012	31.12.2011	31.03.2012	31.12.2011
	LVL	LVL	EUR	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
Fluctuation of exchange rate	-104	-36 663	-148	-52 167
Reserves from revaluation of long-term investments	802 492	802 492	1 141 843	1 141 843
Other reserves	2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year	-87 367	-414 609	-124 312	-589 935
Retained earnings from the year of account	108 858	326 349	154 891	464 353
<b>Total shareholders'equity</b>	<b>3 836 087</b>	<b>3 689 777</b>	<b>5 458 260</b>	<b>5 250 080</b>
<b>Long-term liabilities</b>				
Long-term loans from credit institutions	4 067 651	4 109 500	5 787 746	5 847 292
Long-term part of financial lease liabilities	21 911	7 415	31 177	10 551
Other creditors	58 687	55 042	83 504	78 318
Accrued liabilities	86 967	86 967	123 743	123 743
Long-term part of incomes from next periods	719 060	764 561	1 023 130	1 087 872
<b>TOTAL</b>	<b>4 954 276</b>	<b>5 023 485</b>	<b>7 049 300</b>	<b>7 147 775</b>
<b>Short-term liabilities</b>				
Short-term loans from credit institutions	143 022	143 022	203 502	203 502
Short-term part of financial lease	94 325	130 786	134 212	186 092
Advance payments received from buyers	0	245 358	0	349 113
Debts to suppliers and contractors	4 577 534	4 464 560	6 513 244	6 352 497
Liabilities provisions	51 678	50 017	73 531	71 168
Taxes payable	146 637	145 003	208 646	206 321
Other creditors	1 039 104	999 978	1 478 512	1 422 841
Incomes from the next periods short-term part	182 044	182 044	259 025	259 025
<b>TOTAL</b>	<b>6 234 344</b>	<b>6 360 768</b>	<b>8 870 672</b>	<b>9 050 557</b>
<b>Total liabilities</b>	<b>11 188 620</b>	<b>11 384 253</b>	<b>15 919 972</b>	<b>16 198 333</b>
<b>Total shareholders'equity and liabilities</b>	<b>15 024 707</b>	<b>15 074 030</b>	<b>21 378 232</b>	<b>21 448 412</b>

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

	31.03.2012	31.12.2011	31.03.2012	31.12.2011
	LVL	LVL	EUR	EUR
<b>I. Cash flow from basic activity</b>				
<b>Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>108 859</b>	<b>226 288</b>	<b>154 892</b>	<b>321 979</b>
wear and tear of fixed assets and intangible investments (+)	166 808	685 885	237 346	975 926
elimination of fixed assets and intangible investments	0	-95 104	0	-135 321
revaluation of biological assets	0	-103 070	0	-146 655
Accruals (except accruals for doubtful debts)	0	-32 560	0	-46 329
profit (-) or loss (+) from fluctuations of exchange rate	0	-52	0	-74
Income from finansation recognition	-45 501	-91 925	-64 742	-130 797
Interest expenditure	34 895	124 054	49 651	176 513
<b>Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b>	<b>265 061</b>	<b>713 516</b>	<b>377 148</b>	<b>1 015 242</b>
increase (+) or decrease (-) of debtors debt	170 879	244 067	243 139	347 276
increase (+) or decrease (-) of the reserves of accruals	54 748	1 355 744	77 899	1 929 050
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-86 318	1 075 365	-122 819	1 530 107
<b>Gross cash flow from basic activity</b>	<b>404 370</b>	<b>3 388 692</b>	<b>575 367</b>	<b>4 821 674</b>
Expenditures to pay interest payments	-34 895	-123 351	-49 651	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-16 957	0	-24 128
<b>Net cash flow from basic activity</b>	<b>369 475</b>	<b>3 248 384</b>	<b>525 716</b>	<b>4 622 034</b>
<b>II. Cash flow from investments</b>				
Income from selling fixed assets and intangible investments	0	15 112	0	21 502
Acquisition of fixed assets and intangible investments	-64 694	-3 315 848	-92 051	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	-262 976	-1 216 138	-374 181	-1 730 408
Loans issued	-70	0	-100	0
<b>Net cash flow from investments</b>	<b>-327 740</b>	<b>-4 516 874</b>	<b>-466 332</b>	<b>-6 426 933</b>
<b>III. Cash flow from financing activities</b>				
Recieved loans	0	-194 256	0	-276 401
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-41 849	1 043 466	-59 546	1 484 718
Expenditures for redemption of asset that was hired	-21 965	-107 997	-31 253	-153 666
<b>Cash flow from financing activities</b>	<b>-63 814</b>	<b>1 223 109</b>	<b>-90 799</b>	<b>1 740 327</b>
<b>IV. Fluctuations of exchange rate</b>	<b>37 451</b>	<b>-48 038</b>	<b>53 288</b>	<b>-68 352</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>15 373</b>	<b>-93 419</b>	<b>21 873</b>	<b>-132 923</b>
<b>VI. Money and its equivalents balance at the beginning of the year of account</b>	<b>5 026</b>	<b>98 445</b>	<b>7 151</b>	<b>140 075</b>
<b>VII. Money and its equivalents balance at the end of the year of account</b>	<b>20 399</b>	<b>5 026</b>	<b>29 025</b>	<b>7 151</b>

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	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital	Share capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>December 31, 2010</b>	<b>387 136</b>	<b>802 492</b>	<b>-31 732</b>	<b>1 987</b>	<b>2 623 085</b>	<b>-133 607</b>	<b>-237 843</b>	<b>3 411 518</b>
Fluctuation of exchange rate			-4 931					-4 931
Distribution of profit of the year 2010						-281 002	237 843	-43 159
Profit of the year of account	0						326 349	326 349
<b>December 31, 2011</b>	<b>387 136</b>	<b>802 492</b>	<b>-36 663</b>	<b>1 987</b>	<b>2 623 085</b>	<b>-414 609</b>	<b>326 349</b>	<b>3 689 777</b>
Fluctuation of exchange rate			36 559			893		37 452
Distribution of profit of the year 2011						326 349	-326 349	0
Profit of the year of account							108 859	108 859
<b>March 31, 2012</b>	<b>387 136</b>	<b>802 492</b>	<b>-104</b>	<b>1 987</b>	<b>2 623 085</b>	<b>-87 367</b>	<b>108 859</b>	<b>3 836 088</b>

	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	Share capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2010</b>	<b>550 845</b>	<b>1 141 843</b>	<b>-45 151</b>	<b>2 827</b>	<b>3 732 314</b>	<b>-190 106</b>	<b>-338 420</b>	<b>4 854 153</b>
Fluctuation of exchange rate			-7016					-7016
Distribution of profit of the year 2010						-399830	338420	-61410
Profit of the year of account							464353	464353
<b>December 31, 2011</b>	<b>550 845</b>	<b>1 141 843</b>	<b>-52 167</b>	<b>2 827</b>	<b>3 732 314</b>	<b>-589 935</b>	<b>464 353</b>	<b>5 250 080</b>
Fluctuation of exchange rate			52019			1271		53289
Distribution of profit of the year 2011						464353	-464353	
Profit of the year of account							154892	154892
<b>March 31, 2012</b>	<b>550 845</b>	<b>1 141 843</b>	<b>-148</b>	<b>2 827</b>	<b>3 732 314</b>	<b>-124 312</b>	<b>154 892</b>	<b>5 458 261</b>

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 2012 first 3 month consolidated report, hereinafter Holding company.

### **2. Important accounting principles**

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

#### ***Principles of preparing the financial statement***

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

#### ***Currency and items used in the preparation of the financial statement***

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

#### ***Consolidation***

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre Ltd., ооо Деревообрабатывающий комбинат № 3 and ооо Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding’s parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūpniecība and its subsidiary companies were one company. In preparation of the Holding’s financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net actives obtained by the Holding is accounted as an intangible value.

#### ***Consolidation of foreign subsidiary companies***

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

#### ***Changes in the accounting principles***

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

#### ***Application of the International Financial Rreporting Standards***

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

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

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

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

### ***Transactions in foreign currencies***

The Holding's accountancy is kept in Latvian lats (Ls) except for the ooo Saldus and 000 ДеревООбРабатыВаЮЩИЙ комбинат № 3 where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the ooo Saldus and ooo Saldus Łes into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	31.03.2012.	31.12.2011.
RUB	0.0180	0.0170
EUR	0.702804	0.702804

### ***Intangible investments***

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

The intangible investments include the licences of software used in the Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are includes as expenditures in the profit/loss statement.

### ***Capital assets***

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

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

Buildings, constructions	10-20 years
Equipment and machinery	2-10 years
Forest equipment	3-5 years
Timber processing lines	3-10 years
Other capital assets	2-10 years
Computing and data gathering devices, software	2-5 years

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur. The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

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

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

### ***Noncurrent assets held for sales***

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

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

### ***Biological assets***

In 2008 the company management decided to change accountancy policies for forest stands, complying with IAS 41 Agriculture. According to the new accountancy policy the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2011 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 2011. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

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

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

### ***Loan costs***

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

### **Lease**

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

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

### **Inventories**

#### *Unfinished products*

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

*Raw materials are accounted in their purchase costs.*

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

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

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

### **Debts of buyers and customers**

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

### **Money and its equivalents**

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

### **Share capital**

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

### **Profit per share**

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

### **Credits and loans**

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

Further loans will be shown in their depreciation value.

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

### **Accruals**

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

---

### **Accruals and deferred liabilities**

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

#### **Income recognition**

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

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

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

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

#### **Sale of goods**

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

#### **Interest**

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

#### **Dividends**

Incomes are recognized when shareholders have rights to receive them.

#### **Income from lease**

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

### **Taxes**

#### **Company income tax**

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

#### **Deferred company income tax**

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

### **Possible liabilities and assets**

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

### **Allowances**

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

### Associated persons

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

### Events after the end of the year of account

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

### 3. Segments of the Holding activities

	Logging		Timber processing		Other		Total	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011	31.03.2012	31.12.2011	31.03.2012	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	1 273 598	6 733 596	4 307 560	18 318 723	315 685	848 622	5 896 843	25 900 941
Product costs of sold products	-978 977	-6 000 254	-4 212 295	-17 623 971	-144 114	-567 153	-5 335 386	-24 191 378
Selling cost	-143 706	-649 068	-17 474	-11 717	-267 322	-66 169	-428 502	-726 954
General administration cost	-2 012	-5 922	-18 422	-12 781	-32 112	-194 461	-52 546	-213 164
Other income/expenditures from economic activity	-8 596	-19 099	88 367	-111 053	-5 880	3 459	73 891	-126 693
<b>Segment profit</b>	<b>140 307</b>	<b>59 253</b>	<b>147 736</b>	<b>559 201</b>	<b>-133 743</b>	<b>24 298</b>	<b>154 300</b>	<b>642 752</b>
Financial expenditure	-1 752	-6 581	-11 638	-19 592	-32 051	-181 841	-45 441	-208 014
Company income tax (undistributable)						113 877		113 877
Other taxes				-5 019		-8 640		-13 659
<b>Net result</b>	<b>138 555</b>	<b>52 672</b>	<b>136 098</b>	<b>534 590</b>	<b>-165 794</b>	<b>-52 306</b>	<b>108 859</b>	<b>534 956</b>
Segment assets	3 245 031	4 034 535	10 975 335	10 459 905	804 341	448 282	15 024 707	14 942 722
Segment liabilities	2 756 847	3 137 972	11 862 028	11 057 614	405 832	747 136	15 024 707	14 942 722

  

	Logging		Timber processing		Other		Total	
	31.03.2012	31.12.2011	31.03.2012	31.12.2011	31.03.2012	31.12.2011	31.03.2012	31.12.2011
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	1 812 167	9 581 044	6 129 106	26 065 195	449 179	1 207 480	8 390 452	36 853 719
Product costs of sold products	-1 392 959	-8 537 592	-5 993 556	-25 076 652	-205 056	-806 986	-7 591 570	-34 421 230
Selling cost	-204 475	-923 541	-24 863	-16 672	-380 365	-94 150	-609 703	-1 034 362
General administration cost	-2 863	-8 426	-26 212	-18 186	-45 691	-276 693	-74 766	-303 305
Other income/expenditures from economic activity	-12 231	-27 175	125 735	-158 014	-8 366	4 922	105 137	-180 268
<b>Segment profit</b>	<b>199 639</b>	<b>84 309</b>	<b>210 209</b>	<b>795 671</b>	<b>-190 299</b>	<b>34 573</b>	<b>219 549</b>	<b>914 554</b>
Financial expenditure	-2 493	-9 364	-16 559	-27 877	-45 604	-258 736	-64 657	-295 977
Company income tax (undistributable)						162 032		162 032
Other taxes				-7 141		-12 294		-19 435
<b>Net result</b>	<b>197 146</b>	<b>74 946</b>	<b>193 650</b>	<b>760 653</b>	<b>-235 904</b>	<b>-74 425</b>	<b>154 892</b>	<b>761 174</b>
Segment assets	4 617 263	5 740 626	15 616 495	14 883 104	1 144 475	637 848	21 378 232	21 261 578
Segment liabilities	3 922 640	4 464 932	16 878 145	15 733 567	577 447	1 063 079	21 378 232	21 261 578



### 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.

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
<b>Income from sales, int. Al.</b>	5 511 429	24 437 664	7 842 057	34 771 663
Latvia	5 511 429	24 437 664	7 842 057	34 771 663
the EU countries				
Other countries				
<b>Income from rendering of services, int. Al.</b>	339 914	1 371 308	483 654	1 951 195
Latvia	337 703	1 371 308	480 508	1 951 195
the EU countries				
Other countries	2211		3146	
Financing of the EU structural funds	45 500	91 969	64 741	130 860
	<b>5 896 843</b>	<b>25 900 941</b>	<b>8 390 452</b>	<b>36 853 718</b>