

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

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

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

Saldus, 2012

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Rīga
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 Melrkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Maris Elleris (<i>Māria Elleris</i>) – member of the Council Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council
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 (100%)</i>)
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

Management announcement

To Report of economic activity for the 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.

Profit of A/s „Saldus mežrūpniecība” for the first 3 month of 2012 are 117 480 LVL at the net turnover of 5 894 632 LVL, which means profit on one share issued of 0.30 LVL.

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

Forecasts for financial statements and operational plans of 2012

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

Business and financial risk management policy

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

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

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

May 31, 2012

Valde:

Jānis Bertrāns
valdes priekšsēdētājs

Jānis Mierkalns
valdes loceklis

Gundars Maurs
valdes loceklis

Gatis Zommers
valdes loceklis

Statement of Management Responsibility

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

The Management confirms that, in preparing this report for the period ending on 31 March 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.

Profit or loss calculation

	31.03.2012	31.03.2011	31.03.2012	31.03.2011
	LVL	LVL	EUR	EUR
Net turnover	5 849 131	6 401 937	8 322 564	9 109 136
Production costs of the sold production	-5 335 158	-5 899 283	-7 591 247	-8 393 923
Gross profit	513 973	502 654	731 317	715 212
Selling costs	-411 475	-355 396	-585 476	-505 683
General administration costs	-36 044	-30 968	-51 286	-44 063
Other income from company's economic activity	208 948	130 918	297 306	186 280
Other expenditures from company's economic activity	-119 225	-92 841	-169 642	-132 101
Profit or loss from economic activity	156 177	154 367	222 220	219 644
Other interest income and the like income	128		182	0
Other interest payments and the like payments	-38 825	-27 906	-55 243	-39 707
Profit or loss before extraordinary items and taxes	117 480	126 461	167 159	179 938
Company's income tax				
Company's deferred income tax				
Other taxes		-4 036		-5 743
Profit or (loss)	117 480	122 425	167 159	174 195
Profit or (loss) per share	0.30	0.32	0.43	0.45
lats per share/ EUR per share				

The annex is an integral part of this financial statement

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Balance sheet

ASSETS	31.03.2012	31.12.2011	31.03.2012	31.12.2011
LONG-TERM INVESTMENTS	LVL	LVL	EUR	EUR
Intangible investments				
Concessions, patents, licences, trademarks and the like items	8 270	10 114	11 767	14 391
TOTAL	8 270	10 114	11 767	14 391
Fixed assets			0	
Land, premises and buildings	3 495 567	3 506 275	4 973 744	4 988 980
Equipment and machinery	2 961 911	3 125 983	4 214 420	4 447 873
Other fixed assets	47 176	51 232	67 125	72 897
Unfinished constructions	102 367	88 109	145 655	125 368
Advance payments for fixed assets	3 598 675	3 335 699	5 120 453	4 746 272
TOTAL	10 205 696	10 107 298	14 521 397	14 381 389
Biological assets	677 492	677 492	963 984	963 984
Long-term financial investments			0	
Participation in the capital of related companies	415 142	415 142	590 694	590 694
Loans to the related companies	854 260	832 442	1 215 502	1 184 458
Deferred company's income tax	25 030	25 030	35 614	35 614
TOTAL	1 294 432	1 272 614	1 841 811	1 810 767
TOTAL LONG-TERM INVESTMENTS	12 185 890	12 067 518	17 338 959	17 170 531
CURRENT ASSETS			0	0
Stocks			0	0
Raw materials, direct materials, auxiliary materials	65 554	13 858	93 275	19 718
Biological assets	399 707	399 707	568 732	568 732
Unfinished production	1 443 302	1 248 415	2 053 634	1 776 335
Finished production and goods for sale	237 956	566 134	338 581	805 536
Advance payments for goods	17 153	17 153	24 407	24 407
TOATL	2 163 672	2 245 267	3 078 628	3 194 727
Noncurrent assets held for sale			0	
Fixed assets held for sale	89 654	89 654	127 566	127 566
Debtors			0	
Debts of buyers and customers	34 620	227 536	49 260	323 755
Debts of subsidiaries	265 806	240 056	378 208	341 569
Other debtors	29 888	69 044	42 527	98 241
Expenditures of the next periods	61 432	33 239	87 410	47 295
TOTAL	391 746	569 875	557 404	810 859
Money and its equivalents	14 102	4 531	20 065	6 447
TOTAL CURRENT ASSETS	2 659 174	2 909 327	3 783 664	4 139 599
TOTAL ASSETS	14 845 064	14 976 845	21 122 623	21 310 131

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Balance sheet (continuation)

	31.03.2012	31.12.2011	31.03.2012	31.12.2011
	LVL	LVL	EUR	EUR
Shareholders'equity				
Share capital	387 136	387 136	550 845	550 845
Increase of price of the issue of shares	1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments	802 492	802 492	1 141 843	1 141 843
Other reserves	2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year	434 160	-100 796	617 754	-143 420
Retained earnings from the year of account	117 480	534 956	167 159	761 174
Total shareholders'equity	4 366 340	4 248 860	6 212 742	6 045 583
Acruals for holiday	86 967	119 527	123 743	170 072
TOTAL	86 967	119 527	123 743	170 072
Long-term liabilities				
Long-term loans from credit institutions	3 821 200	3 846 226	5 437 078	5 472 687
Long-term part of financial lease liabilities	0	7 415	0	10 551
Long-term part of incomes from next periods	719 060	764 561	1 023 130	1 087 872
TOTAL	4 540 260	4 618 202	6 460 208	6 571 109
Short-term liabilities				
Short-term loans from credit institutions	130 370	130 370	185 500	185 500
Short-term part of financial lease	89 584	130 786	127 467	186 092
Debts to suppliers and contractors	4 256 935	4 408 474	6 057 073	6 272 693
Accrued liabilities	51 513	43 393	73 296	61 743
Taxes payable	135 783	137 749	193 202	195 999
Other creditors	1 005 268	990 000	1 430 367	1 408 643
Incomes from the next periods short-term part	182 044	182 044	259 025	259 025
TOTAL	5 851 497	6 022 816	8 325 930	8 569 695
Total liabilities	10 391 757	10 641 018	14 786 138	15 140 805
Total shareholders'equity and liabilities	14 845 064	14 976 845	21 122 623	21 310 131

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Cash flow statement

	31.03.2012	31.12.2011	31.03.2012	31.12.2011
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	117 480	434 738	167 159	618 576
wear and tear of fixed assets and intangible investments (+)	245 375	672 256	349 137	956 534
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	-27 635	0	-39 321
Interest income	0	-25 750	0	-36 639
Income from finansation recognition	-45 501	-91 925	-64 742	-130 797
Interest expenditure	28 480	124 054	40 523	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	345 834	855 004	492 078	1 216 561
increase (+) or decrease (-) of debtors debt	178 129	169 100	253 454	240 608
increase (+) or decrease (-) of the reserves of accruals	81 595	1 389 120	116 099	1 976 540
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-130 116	1 004 486	-185 138	1 429 255
Gross cash flow from basic activity	475 442	3 417 710	676 493	4 862 963
Expenditures to pay interest payments	-28 480	-123 351	-40 523	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-15 774	0	-22 444
Net cash flow from basic activity	446 962	3 278 585	635 970	4 665 006
II. Cash flow from investments				
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	-277 235	-1 219 530	-394 470	-1 735 235
Loans issued	-21 819	-73 319	-31 046	-104 324
Net cash flow from investments	-363 748	-4 593 585	-517 567	-6 536 083
III. Cash flow from financing activities				
Recieved loans	0	1 043 466	0	1 484 718
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-25 026	-130 370	-35 609	-185 500
Expenditures for redemption of asset that was hired	-48 617	-84 049	-69 176	-119 591
Cash flow from financing activities	-73 643	1 310 943	-104 784	1 865 304
IV. Fluctuations of exchange rate	0	52	0	74
V. Net cash flow of the year of account increase (+), decrease (-)	9 571	-4 005	13 619	-5 699
VI. Money and its equivalents balance at the beginning of the year of account	4 531	8 536	6 447	12 146
VII. Money and its equivalents balance at the end of the year of account	14 102	4 531	20 065	6 447

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Statement on the changes in own capital

	Share capital	Share premium	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Toatal own capital
	LVL	LVL	LVL	LVL		LVL	LVL
December 31, 2010	387 136	1 987	802 492	2 623 085	61 949	-162 745	3 713 904
Distribution of profit of the year 2010					-162 745	162 745	
Profit of the year of account						534 956	534 956
December 31, 2011	387 136	1 987	802 492	2 623 085	-100 796	534 956	4 248 860
Distribution of profit of the year 2011					534 956	-534 956	
Profit of the year of account						117 480	117 480
March 31, 2012	387 136	1 987	802 492	2 623 085	434 160	117 480	4 366 340
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2010	550 845	2 827	1 141 843	3 732 314	88 145	-231 565	5 284 409
Distribution of profit of the year 2010					-231 565	231 565	
Profit of the year of account					0	761 174	761 174
December 31, 2011	550 845	2 827	1 141 843	3 732 314	-143 420	761 174	6 045 583
Distribution of profit of the year 2011					761 174	-761 174	
Profit of the year of account						167 159	167 159
March 31, 2012	550 845	2 827	1 141 843	3 732 314	617 754	167 159	6 212 742

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Annex to the financial statement

1. Corporative information

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

2. Important accounting principles

Basis of preparation

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

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

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2012 through 31 March 2012.

Use of calculations (continuation)

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

Decrease of the value of assets

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

Foreign currency translation

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

Currency exchange rates established by the Bank of Latvia:

	31.03.2012	31.12.2011
	Ls	Ls
1 RUB	0.0180	0.0170
1 EUR	0.702804	0.702804

Intangible investment

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 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.

Investments in subsidiaries

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

Reserves

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

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

Accruals

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

Credits and loans

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

Lease

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

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

Income recognition

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

Rendering of services

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

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

Sale of goods

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

Interests

Interest is recognised according to savings method.

Dividends

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

Income from lease

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

Corporate income tax

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

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

Associated persons

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

Possible liabilities and assets

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

Share capital

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

Accruals and deferred liabilities

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

Events after the end of the year of account

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

3. Segments of the Holding activities

	Logging		Timber processing		Other		Total	
	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	4 305 349	18 318 723	315 685	848 622	5 894 632	25 900 941
Product costs of sold products	-978 977	-6 000 254	-4 212 067	-17 623 971	-144 114	-567 153	-5 335 158	-24 191 378
Selling cost	-143 034	-649 068	-1 119	-11 717	-267 322	-66 169	-411 475	-726 954
General administration cost	-1 435	-5 922	-3 156	-12 781	-31 452	-194 461	-36 043	-213 164
Other income/expenditures from economic activity	-8 361	-19 099	58 454	-111 053	-5 872	3 459	44 221	-126 693
Segment profit	141 791	59 253	147 461	559 201	-133 075	24 298	156 177	642 752
Financial expenditure	-1 752	-6 581	-5 398	-19 592	-31 547	-181 841	-38 697	-208 014
Company income tax (undistributable)						113 877		113 877
Other taxes				-5 019		-8 640		-13 659
Net result	140 039	52 672	142 063	534 590	-164 622	-52 306	117 480	534 956
Segment assets	3 521 130	4 034 535	11 903 046	10 459 905	872 778	448 282	16 296 954	14 942 722
Segment liabilities	2 990 416	3 137 972	12 866 322	11 057 614	440 215	747 136	16 296 954	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	6 125 960	26 065 195	449 179	1 207 480	8 387 306	36 853 719
Product costs of sold products	-1 392 959	-8 537 592	-5 993 231	-25 076 652	-205 056	-806 986	-7 591 246	-34 421 230
Selling cost	-203 519	-923 541	-1 592	-16 672	-380 365	-94 150	-585 476	-1 034 362
General administration cost	-2 042	-8 426	-4 491	-18 186	-44 752	-276 693	-51 285	-303 305
Other income/expenditures from economic activity	-11 897	-27 175	83 173	-158 014	-8 355	4 922	62 921	-180 268
Segment profit	201 750	84 309	209 818	795 671	-189 349	34 573	222 220	914 554
Financial expenditure	-2 493	-9 364	-7 681	-27 877	-44 887	-258 736	-55 061	-295 977
Company income tax (undistributable)						162 032		162 032
Other taxes				-7 141		-12 294		-19 435
Net result	199 258	74 946	202 137	760 653	-234 236	-74 425	167 159	761 174
Segment assets	5 010 117	5 740 626	16 936 508	14 883 104	1 241 851	637 848	23 188 476	21 261 578
Segment liabilities	4 254 979	4 464 932	18 307 127	15 733 567	626 370	1 063 079	23 188 476	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	2011	2012	2011
	LVL	LVL	EUR	EUR
Income from sales, int. AI.	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				
Income from rendering of services, int. AI.	337 703	1 371 308	480 508	1 951 195
Latvia	337 703	1 371 308	480 508	1 951 195
the EU countries				
Other countries				
Financing of the EU structural funds	45 500	91 969	64 741	130 860
	5 894 632	25 900 941	8 387 306	36 853 718