

AS “TALSU MEŽRŪPNIECĪBA”

(REGISTRATION NUMBER 40003113243)

**ANNUAL REPORT FOR 9 MONTHS OF THE YEAR 2012
(NON-AUDITED)**

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Informācija par Sabiedrību

Company name	A/s „Talsu Mežrūpniecība”
Legal Status	Joint stock company
Registration number, time and place	40003113243, Riga January 29, 1993
Legal address	Eksporta Street 26, Tukums, LV- 3104
Address of the executive bodies	Dumpīšu Street 3, Stende, LV – 3257
Shareholders	All Company shares are book-entry shares. Public placement at LCD – 230,000 shares are bearer shares
Board	Closed issue - 265,699 shares are registered shares Gatis Štāks , chairman of the Board till 22 nd August 2012. ID code 260576-11140, Roja district., Parish Roja, “Birzītes” Dace Štāka , chairman of the Board from 23 th August 2012. ID code 251078-12529 Roja district, Parish Roja, “Birzītes”. Pēteris Kļava , member of the Board ID code 050859-12503, Talsi district, Parish Lībagi, “Veikals”. Andis Gribusts , member of the Board ID code 211067- 12501 Talsi district, Parish Lauciene, „Dzelzkalēji”.
Supervisory Board	Oskars Derings , Chairman of the Supervisory Board, ID 090778-12500, Liepāja, Toma Street 12/20-41 Eva Emerberga , member of the Supervisory Board ID code 110280-12526 Liepāja, Toma Street 12/20-41 Alda Kiore , member of the Supervisory Board ID code 290152-12516 Talsi district, Stende, Robezu Street 4. Asmeralda Kļava , member of the Supervisory Board ID code 130454-12512 Talsi district, Parish Abava, „Vītiņi”. Dace Štāka , member of the Supervisory Board till 22 nd August 2012. ID code 251078-12529 Roja district, Parish Roja, “Birzītes”.
Period Audithor	01.01.2012.-30.09.2012. Daiga Baraua , sworn audithor, No. Sertificate 89, Talsi district, Parish Valdgale, “Lejaskalēji”, LV-3253, Latvia

JSC “Talsu mežrūpniecība”
Financials statement for 9 month
of the year 2012

JSC “TALSU MEŽRŪPNIECĪBA”

DECLARATION

on the responsibility of Management

JSC “Talsu mežrūpniecība” is responsible for the preparation of the financial report of the company.

The Financial report for 9 month of the year of 2012 of JSC “Talsu mežrūpniecība” is prepared, basing on the source documents and provides clear and true view on the financial standing of the Company as of September 30, 2012, its financial results in 9 moth of the year 2012 and the cash flow.

The Financial Report has been prepared in accordance with the Laws being in force and with the book-keeping standarts of the Republic of Latvia, basing upon the principle of continuation of entrepreneurship. During the reporting year the appropriate accounting methods have been consequently applied.

JSC “Talsu mežrūpniecība” is responsible for the provision of appropriate accounting, preservation of company’s assets, as well as for detection and averting of violations.

Chairman of Board

D.ŠTĀKA

MANAGEMENT REPORT

The main activities of the Company in 2012 were logging and production of timber products: peeled and turn poles production in timber processing unit.

During 9 month 13 067 m³ pales were produced in the timber processing unit and woodchips of 31 862 m³ were sold.

Total revenues for the Company during 9 month 2012 were Ls 1 304 503, revenues from access Ls 10 369.

The result for 9 month 2012 is profit Ls 47 046 which corresponds to Ls 0.0949 profit per share.

In the future the Company plans to continue the production of peeled and turn poles, increasing the proportion of timber purchased from small logging companies and private loggers, whose price offering is lower than that of VAS Latvijas valsts meži. It is also planned to sell the produced goods to a wider network of clients, achieving the most beneficial sales price.

Suggestions for distribution of profit and covering of losses

The profit for the year will be used to cover losses of the previous periods.

Board:

Dace Štāka
Chierman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

October 15, 2012

Profit and Loss Statement

	Note	2012 Ls	2011 Ls	2012 EUR	2011 EUR
Revenues	2	1 304 503	1 263 666	1 856 141	1 798 035
Cost of goods sold	3	(1 217 515)	(1 227 250)	(1 732 368)	(1 746 219)
Gross result		86 988	36 416	123 773	51 816
Administration expenses	4	(24 103)	(26 047)	(34 295)	(37 062)
Other operating income	5	11 181	6 016	15 909	8 560
Other operating expenses	6	(18 847)	(4 927)	(26 817)	(7 010)
Financial income	7	5	806	7	1 147
Financial expenses	8	(7 173)	(2 357)	(10 206)	(3 354)
Profit (loss) before taxes		48 051	9 907	68 371	14 097
Deferred corporate income tax	9; 18			-	-
Other taxes	17	(1 005)	(1 128)	(1 430)	(1 605)
Net profit (loss)		47 046	8 779	66 941	12 492

Notes on pages 11 to 19 are integral part of the financial statements

Board:

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Chairman of the Board

Pēteris Kļava
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October 15, 2012

AS „TALSU MEŽRŪPNIECĪBA”
ANNUAL REPORT OF 9 MONTHS OF THE YEAR 2012 (NON - AUDITED)

Balance Sheet

LONG TERM ASSETS	Note	Ls	Ls	EUR	EUR
Fixed assets					
Land, building and constructions		120 573	83 619	171 560	118 979
Machinery and equipments		106 458	90 938	151 476	129 393
Other fixed assets		28 746	53 991	40 902	76 822
Advances for fixed assets			16 052		22 841
New fixed assets		823		1 171	
Leasing		37 930		53 969	
TOTAL	10	294 530	244 600	419 078	348 034
Total long term assets		294 530	244 600	419 078	348 034
CURRENT ASSETS					
Inventories					
Materials		6 925	3 495	9 853	4 973
Production in progress		66 491	40 517	94 608	57 650
Goods for sale		107 265	46 109	152 624	65 607
Advances for goods		4 500	6 738	6 403	9 587
TOTAL		185 181	96 859	263 489	137 818
Debtors					
Trade receivables, net	11	30 221	134 226	43 001	190 986
Other debtors	12	7 244	2 842	10 307	4 044
Next perion taxes		3 561	2 469	5 067	3 513
TOTAL		41 026	139 537	58 375	198 543
Cash		92 345	57 595	131 395	81 950
TO CURRENT ASSETS		318 552	293 991	453 259	418 312
TOTAL ASSETS		613 082	538 591	872 337	766 346

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Board:

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October 15, 2012

AS „TALSU MEŽRŪPNIECĪBA”
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EQUITY	Note	30.09.2012. Ls	30.09.2011. Ls	30.09.2012. EUR	30.09.2011 EUR
Share capital	13	495 699	495 699	705 316	705 316
Retained earnings				-	-
Prior year loss		(170 583)	(154 029)	(242 718)	(219 164)
Current year profit (loss)		47 046	8 779	66 941	12 491
Total equity		372 162	350 449	529 539	498 644
Provisions					
Other provisions	14	9 737	7 476	13 855	10 637
TOTAL PROVISIONS		9 737	7 476	13 855	10 637
LIABILITIES					
Long term liabilities					
Payables to related parties	16	24 933	31 204	35 476	44 399
Loans from credit institutions	16	42 841	32 891	60 957	46 800
Deferred tax liabilities		17 451	16 712	24 831	23 779
TOTAL		85 225	80 807	121 264	114 978
Short term liabilities					
Other loans	16	1 594		2 268	-
Loans from credit institutions	16	4 781	4 055	6 803	5 770
Trade creditors		114 741	70 635	163 262	100 505
Taxes payable	17	9 632	12 890	13 705	18 341
Other liabilities		13 612	12 279	19 368	17 471
TOTAL	15	145 958	99 859	207 680	142 087
TOTAL LIABILITIES		231 183	180 666	328 944	257 065
TOTAL EQUITY AND LIABILITIES		613 082	538 591	872 337	766 346

Notes on pages 11 to 19 are integral part of the financial statements

Board:

Dace Štāka
Chairman of the Board

Pēteris Kļava
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Andis Gribusts
Member of the Board

October 15, 2012

Equity Statement

Ls	Share capital	Prior period loss	Current period profit (loss)	Total
January 1, 2011	495 699	(216 160)	62 131	341 670
Transferred to prior period losses	-	62 131	(62 131)	-
Current period loss	-	-	8 779	8 779
September 30, 2011	495 699	(154 029)	8 779	350 449
Transferred to prior period losses	-	(16 554)	(9 139)	(25 693)
Current period profit	-	-	47 406	47 406
September 30, 2012	495 699	(170 583)	47 046	372 162

EUR	Share capital	Prior period loss	Current period profit (loss)	Total
January 1, 2011	705 316	(307 568)	88 404	486 152
Transferred to prior period losses	-	88 404	(88 404)	-
Current period loss	-	-	12 491	12 491
September 30, 2011	705 316	(219 164)	12 491	498 643
Transferred to prior period losses	-	(23 554)	(12 491)	(36 045)
Current period profit	-	-	66 941	66 941
September 30, 2012	705 316	(242 718)	66 941	529 539

Notes on pages 11 to 19 are integral part of the financial statements.

Board:

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October 15, 2012

Cash Flow Statement
(prepared based on indirect method)

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Operating cash flow				
Profit (loss) before taxes	48 051	9 907	36 903	14 096
Adjustments:				
Depreciation	32 265	30 007	45 909	42 696
Interest (income)/expenses	(7 173)	(806)	(10 206)	(1 147)
Increases/(decrease) in provisions	1 211	(1 202)	1 723	(1 710)
Asset write offs	-		-	-
(Profit)/loss from sale of fixed assets		(2 616)	-	(3 722)
Revaluation of biological assets			-	-
(profit)/loss from currency fluctuations	-	-	-	-
Operating cash flow before changes in current assets	74 354	35 290	105 796	50 213
Decrease/(increase) of inventories	(74 367)	46 061	(105 815)	65 539
Decrease/(increase) of debtors	17 410	(45 038)	24 772	(64 083)
Increases/(decrease) in creditors	84 455	81 060	120 169	115 338
Operating cash flow	101 852	117 373	144 922	167 007
Interest paid		(2 509)	-	(3 570)
Corporate income tax paid	5 247	4 368	7 466	6 215
Real estate tax paid	(1 005)	(1 128)	(1 430)	(1 605)
Net operating cash flow	106 094	118 104	150 958	168 047
Cash flow from investing activities				
Acquisition of long term assets	(30 513)	(46 111)	(43 416)	(65 610)
Income from sale of fixed assets	10 369	8 372	14 754	11 912
Net cash flow from investing activities	(20 144)	(37 739)	(28 662)	(53 698)
Cash flow from financing activities				
Loans received/(paid), net	(34 171)	(22 770)	(48 621)	(32 399)
Net financing cash flow	(34 171)	(22 770)	(48 621)	(32 399)
Cash increase/(decrease)	51 779	57 595	73 675	81 950
Cash at the beginning of the year	40 566	49 831	57 720	70 903
Cash at the end of the year	92 345	107 426	131 395	152 853

Notes on pages 11 to 19 are integral part of the financial statements.

Board:

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October 15, 2012

Notes

1. Significant accounting policies

Annual report preparation principles

The annual report is prepared in accordance with the Law on Accounting, Law of Annual Accounts and Latvian accounting standards applicable as of December 31, 2011. For preparation of this annual report following Latvian accounting standards (LGS) were in force – LGS1 – main principles for annual reports, LGS 2 –Cash flow statements, LGS 3- Subsequent events, LGS 4 – Change of accounting policies, estimates and correction of major mistakes, LGS5 – Long term agreements, LGS6 – Revenues, LGS7 – Fixed assets and LGS 8 – Provisions, contingent liabilities and assets, LGS 9 – Investment properties.

Profit and loss statement was prepared based on turnover method.

Cash flow statement is prepared by indirect method.

The same accounting policies and valuation methods were applied in current and prior reporting year.

Annual report is prepared based on the going concern principle.

Taking into account requirements of the stock exchange, the amounts in the financial statements are disclosed also in EUR. All amounts are translated to EUR based on official Bank of Latvia fixed EUR rate.

Foreign currency translation

The accounting records are prepared in lats. All transaction in foreign currencies are translated to lats in according the Bank of Latvia rate as at date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are stated at the official currency exchange rate set by the Bank of Latvia at year end. Any gain or loss resulting from a change in the currency rates of exchange is included in the profit and loss statement at net value.

	30.09.2012.	30.09.2011.
	LVL	LVL
1 GBP	0.883	0.791
1 EUR	0.702804	0.702804

Fixed assets

All fixed assets are initially recorded at purchase price. Land is regularly revaluated and accounted for at market value. Increase of the value resulting from revaluation is accounted as long term revaluation reserve and included in the equity of the Company. The decrease of the value is first deducted from previously recognised revaluation reserve for the same asset and any uncovered loss recognised as expense in profit and loss account.

Fixed assets are stated at historical value less accumulated depreciation.

The assets are depreciated over their estimated useful lives using the straight-line method. Following depreciation rates are applied for fixed assets:

	%
Buildings and constructions	4% - 5%
Machinery and equipment	10% - 20%
Other fixed assets	20% - 35%

1. Significant accounting policies (continued)

Inventories

Inventories are accounted in lower of cost and net realisable value. For raw materials the cost is calculated based on purchase cost accounting to FIFO method, but for work in progress and goods for sale the cost is calculated based their purchase price or production costs according to weighted average principle.

Net realisable value is selling price in the ordinary course of business, less the costs of completion, marketing and distribution.. Net value is disclosed as cast of production, less provision established.

Advances for inventories include also cash paid for cutting rights on those cutting that were not yet processed at the end of the reporting period.

Receivables

Trade receivables are recorded and disclosed in the balance sheet in accordance with initial amount of the invoices, less provision established for doubtful accounts. Provisions for doubtful accounts are estimated when full recoverability of the amount is not likely. Provisions for doubtful accounts are estimated by individual assessment of each debtor.

Corporate income tax

Corporate income tax is calculated for the reporting year is calculated in accordance with regulatory requirements of the Republic of Latvia.

Deferred taxation 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 taxation liability is determined based on the current tax rates. The principal temporary timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets, provision for vacation and accumulated tax losses.

Provisions

Provisions are recognised, when the Company has commitments (legal or supported) due to past events where the likelihood of outflow of economical benefits for Company is estimated and the amount of the liabilities can be reasonably estimated.

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2. Revenues

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Timber product related revenues	1180679	1056933	1679956	1503880
Other revenues	123824	206733	176185	294155
Total:	1304503	1263666	1856141	1798035

Revenues according to geographical markets:

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Latvia	930673	1087054	1324228	1546739
Lithuania				
United Kingdom	373830	176612	531913	251296
Total:	1304503	1263666	1856141	1798035

3. Cost of goods sold

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Cost of materials	818686	806364	1164885	1147352
Cost of external services	79132	82178	112594	116929
Depreciation	32265	30007	45909	42696
Salaries	160103	132150	227806	188033
Social contributions	43225	37352	61503	53147
Other costs of goods sold	84104	139199	119671	198062
Total:	1217515	1227250	1732368	1746219

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4. Administration expenses

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Personnel costs	21791	23897	31005	34002
Other administration expenses	2312	150	3290	3060
Total:	24103	26047	34295	37062

The Board does not receive remuneration

5. Other operating incomes

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Income from assets	10369	5756	14753	8190
Income from certificates				
Other incomes	812	260	1156	370
Summa kopā:	11181	6016	15909	8560

6. Other operating expenses

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Stock exchange related expenses	4575	4765	6509	6780
Other asset write offs				
Provisions for doubtful accounts				
Other expenses	755	352	1075	501
Total:	18847	4927	26817	7010

7. Financial income

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Income from currency fluctuations	5	806	7	1147
Other income				
Total:	5	806	7	1147

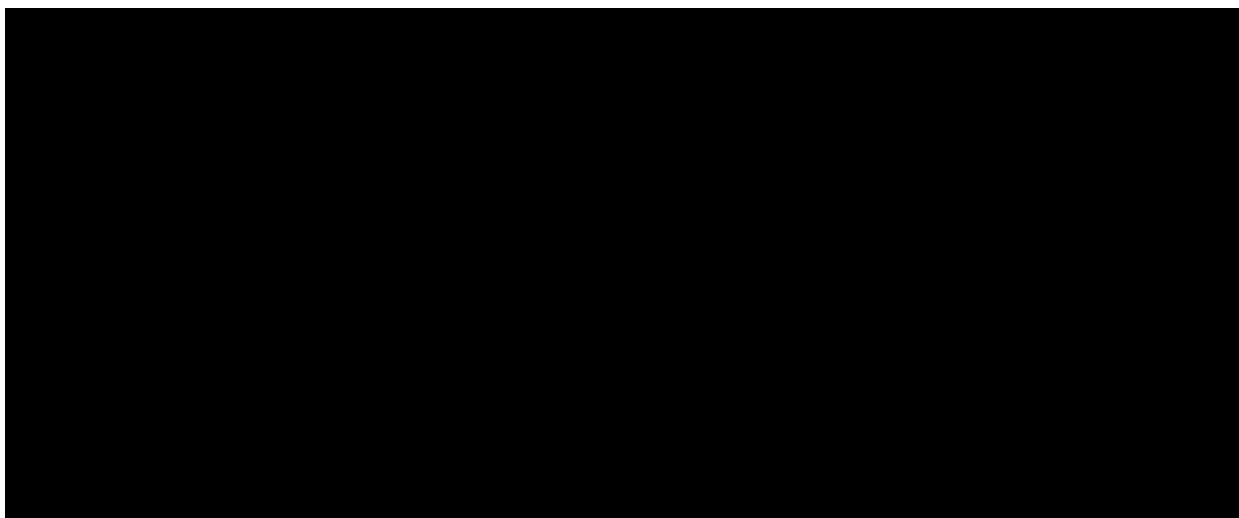
8. Financial expenses

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Interest expenses	3435	1917	4887	2728
Loss from currency fluctuations	3738	440	5319	626
Total:	<u>7173</u>	<u>2357</u>	<u>10206</u>	<u>3354</u>

9. Corporate income tax

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Deferred corporate income tax income/ (expenses)	-			
Corporate income tax income	-			
Total:	<u>-</u>			

10. Fixed assets



AS „TALSU MEŽRŪPNIECĪBA”
ANNUAL REPORT OF 9 MONTHS OF THE YEAR 2012 (NON – AUDITED)

EUR	Land, buildings and constructions	Machinery and equipment	Other fixed assets	Advances for fixed assets	TOTAL
Historical cost 31.12.2011	224 639	858 340	69 842	60 533	1 213 354
2012 Acquisitions	36 172	1 671	5 118		42 961
Write offs		(48 256)	(539)		(48 795)
Historical cost 30.09.2011	260 811	811 755	74 421	60 533	1 207 520
Accumulated depreciation 31.12.2011	83 423	654 815	28 031	2 023	768 292
2012 Depreciation	5 828	34 089	5 991	4 541	50 449
Depreciation of assets written off		(28 625)	(503)	-	(29 128)
Accumulated depreciation 31.03.2012	89 251	660 279	33 519	6 564	789 613
Net book value 31.12.2011	141 216	203 525	41 811	58 510	445 062
Net book value 30.09.2012	171 560	151 476	40 902	53 969	417 907

Cadastral value of assets of the Company:

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Land	21583	21584	30709	30711
Buildings and constructions	87936	87682	125122	124761
Total:	109519	109266	155831	155472

Fixed assets of the Company are pledged as security for credit line issued by SC „SEB bank” (see Note 20).

11. Trade receivables, net

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Gross trade receivables	89207	138906	126930	197645
Provisions for doubtful accounts	(58986)	(4680)	(83929)	(6659)
Total:	30221	134226	43001	190986

12. Other debtors

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
VAT receivable	380	530	540	754
Advance payments of	4027	2312	5731	3290
Corporate income tax	2837		4036	
Other debtors				
Total:	7244	2842	10307	4044
Total:	380	530	540	754

13. Share capital

Share capital of the Company consists of 495,699 shares with nominal value Ls 1 per share.

	Number	Value (Ls)	Total value (Ls)	Total value (EUR)
Close issue shares	265 699	1	265 699	378 058
Public placement	230000	1	230000	327258
Total:	495 699		495 699	705 316

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14. Other provisions

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
Provisions for vacations	9737	7476	13855	10637
Other provisions				
Total:	<u>9737</u>	<u>7476</u>	<u>13855</u>	<u>10637</u>

15.16. Loans from credit institutions

	2012	2011	2012	2011
	Ls	Ls	EUR	EUR
<i>Long term</i>				
Loan from SC SEB bank				
	24933	31204	35476	44399
	42841	32891	60957	46800
<i>Short term</i>				
Loan from SC SEB bank				
	1594	1525	2268	2170
	4781	2530	6803	3600
Total:	<u>74149</u>	<u>68150</u>	<u>105504</u>	<u>96969</u>

In accordance with provisions of the agreement, the loan repayment shall be done in monthly principal repayments with final term on 7 March , 2013. The interest rate for the loan is 3month EURIBOR + 3.8%.

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17. Taxes payable

Ls	assets 31.12.2011	Calculated	Tranferred to other taxes	Paid/(claimed back)	assets 30.06.2012
Value added tax (VAT)	3 422	(27 738)	(18 694)	42 883	(127)
Social contributions	(7 183)	(62 963)	18 694	44 875	(6 577)
Personnel income tax	(760)	(31 312)	-	29 152	(2 920)
Real estate tax	-	(1 005)	-	1 005	-
Nature resources tax	(185)	(96)	-	287	6
Corporate income tax	(767)	-	-	767	-
Risk duty	(11)	(116)	-	113	(14)
Total	(5 484)	(123 230)	-	119 082	(9 632)
Liabilities					
Prepayments	(8 906)				(9 632)
	3 422				6

EUR	(Liabilities)/ assets 31.12.2011	Calculated	2012 Tranferred to other taxes	Paid/(claimed back)	(Liabilities)/ assets 30.06.2012
Value added tax (VAT)	4 869	(39 467)	(26 599)	61 017	(180)
Social contributions	(10 221)	(89 588)	26 599	63 851	(9 359)
Personnel income tax	(1 081)	(44 553)	-	41 479	(4 155)
Real estate tax	-	(1 430)	-	1 430	-
Nature resources tax	(263)	(136)	-	408	9
Corporate income tax	(1 091)	-	-	1 091	-
Risk duty	(16)	(165)	-	161	(20)
Total	(7 803)	(175 339)	-	169 437	(13 705)
Liabilities					
Prepayments	(12 672)				(13 714)
	4 869				9

Tax receivables are included in other debtors, see Note 12.

18. Out of balance sheet liabilities

In accordance with provisions for the loan agreement, the long term loan from credit institution expires on 7 March 2013. In order to secure potential claims, the Company has issued commercial pledge and has pledged its fixed assets, inventories and debtors in favour to the credit institution.

In accordance with provisions for the credit line, the limit is LVL 70 000 and the term 21.09.2012. Interest rate of 3.0% + 3M Rigibor. Credit line' s balance on 31.12.2011.is zero. Secured by a mortgage on real estate Dumpisu Street 3, Stende, Talsi district.

19. Number of employees

	2012	2011
Average number of employees for the reporting year	<u>52</u>	<u>46</u>

20. Financial risk management

The most significant financial instruments for the Company are loans from credit institutions, related entities and cash and cash equivalents. The main purpose of those financial instruments is to ensure operating activities of the Company. The Company is also exposed to other financial investments that are directly related to operating activities of the Company, such as, trade receivables and other receivables, trade payables and other payables.

Board:

Dace Štāka
Chierman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

October 15, 2012