

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

(SINGLE REGISTRATION NUMBER 40003020121)

**ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF 2013 (UNAUDITED)**

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

**Saldus, 2013**

## 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>Profit or loss calculation</b>	<b>6</b>
<b>Balance sheet</b>	<b>7</b>
<b>Balance sheet (continuation)</b>	<b>8</b>
<b>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>

## 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, 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> ) – Chairman of the Board Janis Mierkalns ( <i>Jānis Mierkalns</i> ) – member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) – member of the Board
Members of the Council: name, surname, position	Uldis Mierkalns ( <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 Gunvaldis Vesmins ( <i>Gunvaldis Vēsmiņš</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 –June 30, 2013
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 –June 30, 2013
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 –June 30, 2013

## Management announcement

### *To Report of economic activity for the 2013*

#### **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.

Loss of A/s „Saldus mežrūpniecība” for the first 6 month of 2013 are 77 212 LVL at the net turnover of 15 238 808 LVL, which means loss on one share issued of 0.20 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 2013**

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.

August 30, 2013

Board:

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Janis Bertrams  
Chairman of board

Janis Mierkalns  
Member of board

Gatis Zommers  
Member of board

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## **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 30 June 2013, 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

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL	LVL	EUR	EUR
Net turnover	15 238 808	27 091 595	21 682 870	38 547 867
Production costs of the sold production	-15 027 571	-24 608 037	-21 382 308	-35 014 082
<b>Gross profit</b>	<b>211 237</b>	<b>2 483 558</b>	<b>300 563</b>	<b>3 533 785</b>
Selling costs	-22 231	-497 078	-31 631	-707 278
General administration costs	-102 519	-221 238	-145 871	-314 793
Other income from company's economic activity	169 520	167 362	241 205	238 135
Other expenditures from company's economic activity	-242 123	-512 464	-344 510	-729 171
<b>Profit or loss from economic activity</b>	<b>13 884</b>	<b>1 420 140</b>	<b>19 755</b>	<b>2 020 677</b>
Other interest income and the like income	194	31 785	276	45 226
Other interest payments and the like payments	-88 593	-145 502	-126 056	-207 031
<b>Profit or loss before extraordinary items and taxes</b>	<b>-74 515</b>	<b>1 306 423</b>	<b>-106 025</b>	<b>1 858 872</b>
Company's deferred income tax	0	-209 138	0	-297 577
Other taxes	-2 697	-12 592	-3 837	-17 917
<b>Profit or loss</b>	<b>-77 212</b>	<b>1 084 693</b>	<b>-109 863</b>	<b>1 543 379</b>
<b>Profit/loss on share</b>	<b>-0,20</b>	<b>2,80</b>	<b>-0,28</b>	<b>3,99</b>
lats per share/EUR per share				

The annex is an integral part of this financial statement

Board:

Janis Bertrams  
 Chairman of board

Janis Mierkalns  
 Member of board

Gatis Zommers  
 Member of board

## Balance sheet

### ASSETS

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL	LVL	EUR	EUR
<b>LONG-TERM INVESTMENTS</b>				
<b>Intangible investments</b>				
Concessions, patents, licences, trademarks and the like items	2 379	3 631	3 385	5 166
<b>TOTAL</b>	<b>2 379</b>	<b>3 631</b>	<b>3 385</b>	<b>5 166</b>
<b>Fixed assets</b>				
Land, premises and buildings	3 662 160	3 378 883	5 210 784	4 807 717
Equipment and machinery	6 482 126	7 021 772	9 223 234	9 991 081
Other fixed assets	55 456	62 084	78 907	88 338
Unfinished constructions	2 063 971	912 400	2 936 766	1 298 229
Advance payments for fixed assets	46 873	46 025	66 694	65 488
<b>TOTAL</b>	<b>12 310 586</b>	<b>11 421 164</b>	<b>17 516 386</b>	<b>16 250 853</b>
<b>Biological assets</b>	<b>719 301</b>	<b>719 301</b>	<b>1 023 473</b>	<b>1 023 473</b>
<b>Long-term financial investments</b>				
Participation in the capital of related companies	709 234	709 234	1 009 149	1 009 149
Loans to the related companies	667 298	632 020	949 480	899 283
<b>TOTAL</b>	<b>1 376 532</b>	<b>1 341 254</b>	<b>1 958 629</b>	<b>1 908 433</b>
<b>TOTAL LONG-TERM INVESTMENTS</b>	<b>14 408 798</b>	<b>13 485 350</b>	<b>20 501 872</b>	<b>19 187 925</b>
<b>CURRENT ASSETS</b>				
<b>Stocks</b>				
Raw materials, direct materials, auxiliary materials	86 723	39 071	123 396	55 593
Biological assets	251 989	251 989	358 548	358 548
Unfinished production	1 750 512	1 545 014	2 490 754	2 198 357
Finished production and goods for sale	354 886	390 969	504 957	556 299
Advance payments for goods	17 153	17 153	24 406	24 407
<b>TOATL</b>	<b>2 461 263</b>	<b>2 244 196</b>	<b>3 502 061</b>	<b>3 193 204</b>
<b>Noncurrent assets held for sale</b>				
Fixed assets held for sale	53 616	62 203	76 289	88 507
<b>Debtors</b>				
Debts of buyers and customers	1 879 955	933 164	2 674 935	1 327 773
Debts of subsidiaries	289 251	266 003	411 567	378 488
Other debtors	106 195	103 014	151 102	146 576
Expenditures of the next periods	39 835	21 413	56 680	30 468
<b>TOTAL</b>	<b>2 315 236</b>	<b>1 323 594</b>	<b>3 294 284</b>	<b>1 883 305</b>
<b>Money and its equivalents</b>	<b>17 662</b>	<b>10 433</b>	<b>25 131</b>	<b>14 845</b>
<b>TOTAL CURRENT ASSETS</b>	<b>4 847 777</b>	<b>3 640 426</b>	<b>6 897 765</b>	<b>5 179 860</b>
<b>TOTAL ASSETS</b>	<b>19 256 575</b>	<b>17 125 777</b>	<b>27 399 638</b>	<b>24 367 786</b>

The annex is an integral part of this financial statement.

Board:

Janis Bertrams  
Chairman of board

Janis Mierkalns  
Member of board

Gatis Zommers  
Member of board

## Balance sheet (continuation)

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	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
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	1 518 853	434 160	2 161 133	617 754
Retained earnings from the year of account	-77 212	1 084 693	-109 863	1 543 379
<b>Total shareholders'equity</b>	<b>5 256 341</b>	<b>5 333 553</b>	<b>7 479 099</b>	<b>7 588 962</b>
<b>Accruals for holiday</b>	109 544	109 544	155 867	155 867
<b>TOTAL</b>	<b>109 544</b>	<b>109 544</b>	<b>155 867</b>	<b>155 867</b>
<b>Long-term liabilities</b>				
Long-term loans from credit institutions	8 443 456	3 506 035	12 013 956	4 988 638
Other creditors	925 359	4 025 359	1 316 667	5 727 570
Deferred company's income tax	184 108	184 108	261 962	261 962
Long-term part of incomes from next periods	1 599 105	395 725	2 275 321	563 066
<b>TOTAL</b>	<b>11 152 028</b>	<b>8 111 227</b>	<b>15 867 906</b>	<b>11 541 236</b>
<b>Short-term liabilities</b>				
Short-term loans from credit institutions	900 544	912 099	1 281 358	1 297 800
Short-term part of financial lease	0	7 415	0	10 551
Debts to suppliers and contractors	1 219 393	1 999 376	1 735 040	2 844 856
Advance payments received from buyers	40 361	91 430	57 429	130 093
Taxes payable	153 272	142 547	218 086	202 826
Other creditors	82 905	76 399	117 963	108 706
Incomes from the next periods short-term part	342 187	342 187	486 888	486 888
<b>TOTAL</b>	<b>2 738 662</b>	<b>3 571 453</b>	<b>3 896 765</b>	<b>5 081 720</b>
<b>Total liabilities</b>	<b>13 890 690</b>	<b>11 682 680</b>	<b>19 764 671</b>	<b>16 622 956</b>
<b>Total shareholders'equity and liabilities</b>	<b>19 256 575</b>	<b>17 125 777</b>	<b>27 399 638</b>	<b>24 367 786</b>

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Board:

Janis Bertrams  
 Chairman of board

Janis Mierkalns  
 Member of board

Gatis Zommers  
 Member of board



## Cash flow statement

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
<b>I. Cash flow from basic activity</b>				
<b>Profit (+) or loss (-) before extraordinary items and taxes:</b>	<b>-74 515</b>	<b>1 306 423</b>	<b>-106 025</b>	<b>1 858 872</b>
wear and tear of fixed assets and intangible investments (+)	692 105	1 047 857	984 777	1 490 966
elimination of fixed assets and intangible investments	0	29	0	41
revaluation of biological assets	0	-233 234	0	-331 862
Accruals (except accruals for doubtful debts )	0	22 577	0	32 124
profit (-) or loss (+) from fluctuations of exchange rate	0	-7 474	0	-10 635
Interest income	0	-23 248	0	-33 079
Income from finansation recognition	1 203 380	-208 693	1 712 255	-296 943
Interest expenditure	74 018	124 055	105 318	176 514
<b>Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities</b>	<b>1 894 988</b>	<b>2 028 292</b>	<b>2 696 325</b>	<b>2 885 999</b>
increase (+) or decrease (-) of debtors debt	-991 641	-387 374	-1 410 978	-551 184
increase (+) or decrease (-) of the reserves of accruals	-208 480	-119 196	-296 640	-169 601
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-3 916 518	738 948	-5 572 703	1 051 428
<b>Gross cash flow from basic activity</b>	<b>-3 221 651</b>	<b>2 260 670</b>	<b>-4 583 996</b>	<b>3 216 643</b>
Expenditures to pay interest payments	-74 018	-124 055	-105 318	-176 514
<b>Net cash flow from basic activity</b>	<b>-3 295 669</b>	<b>2 136 615</b>	<b>-4 689 315</b>	<b>3 040 129</b>
<b>II. Cash flow from investments</b>				
Acquisition of fixed assets and intangible investments	-428 704	-1 241 169	-609 991	-1 766 024
Expenditures for advance payments for fixed assets and unfinished	-1 151 571	-1 114 100	-1 638 538	-1 585 221
Loans issued	-35 278	-86 196	-50 196	-122 646
<b>Net cash flow from investments</b>	<b>-1 615 553</b>	<b>-2 441 465</b>	<b>-2 298 725</b>	<b>-3 473 892</b>
<b>III. Cash flow from financing activities</b>				
Recieved loans	5 497 197	571 908	7 821 807	813 752
Expenditures for paying back loans	-571 331	-130 370	-812 931	-185 500
Expenditures for redemption of asset that was hired	-7 415	-130 786	-10 551	-186 092
<b>Cash flow from financing activities</b>	<b>4 918 451</b>	<b>310 752</b>	<b>6 998 325</b>	<b>442 160</b>
<b>IV. Fluctuations of exchange rate</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>7 229</b>	<b>5 902</b>	<b>10 286</b>	<b>8 397</b>
<b>VI. Money and its equivalent balance at the beginning of the year of account</b>	<b>10 433</b>	<b>4 531</b>	<b>14 845</b>	<b>6 447</b>
<b>VII. Money and its equivalent balance at the end of the year of account</b>	<b>17 662</b>	<b>10 433</b>	<b>25 131</b>	<b>14 845</b>

The annex is an integral part of this financial statement  
 Board:

Janis Bertrams  
 Chairman of board

Janis Mierkalns  
 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	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>December 31, 2011</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>-100 796</b>	<b>534 956</b>	<b>4 248 860</b>
Distribution of profit of the year 2011	0	0	0	0	534 956	-534 956	0
Profit of the year of account	0	0	0	0	0	1 084 693	1 084 693
<b>December 31, 2012</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>434 160</b>	<b>1 084 693</b>	<b>5 333 553</b>
Distribution of profit of the year 2012	0	0	0	0	1 084 693	-1 084 693	0
Profit of the year of account	0	0	0	0	0	-77 212	-77 212
<b>June 30, 2013</b>	<b>387 136</b>	<b>1 987</b>	<b>802 492</b>	<b>2 623 085</b>	<b>1 518 853</b>	<b>-77 212</b>	<b>5 256 341</b>
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>December 31, 2011</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>-143 420</b>	<b>761 174</b>	<b>6 045 583</b>
Distribution of profit of the year 2011	0	0	0	0	761 174	-761 174	0
Profit of the year of account	0	0	0	0	0	1 543 379	1 543 379
<b>December 31, 2012</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>617 754</b>	<b>1 543 379</b>	<b>7 588 962</b>
Distribution of profit of the year 2012	0	0	0	0	1 543 379	-1 543 379	0
Profit of the year of account	0	0	0	0	0	-109 863	-109 863
<b>June 30, 2013</b>	<b>550 845</b>	<b>2 827</b>	<b>1 141 843</b>	<b>3 732 314</b>	<b>2 161 133</b>	<b>-109 863</b>	<b>7 479 099</b>

The annex is an integral part of this financial statement

Board:

Janis Bertrams  
Chairman of board

Janis Mierkalns  
Member of board

Gatis Zommers  
Member of board

## 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 2013 through 30 June 2013.

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

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

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

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

#### *Foreign currency translation*

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

*Currency exchange rates established by the Bank of Latvia:.*

	30.06.2013	31.12.2012
	Ls	Ls
1 RUB	0.0164	0.0174
1 USD	0.539	0.531
1 EUR	0.702804	0.702804

#### *Intangible investment*

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

Intangible assets are accounted for their cost value which is depreciated for the useful life of assets on a straight 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 are 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 2012 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 2012. 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	
	2013	2012	2013	2012	2013	2012	2013	2012
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	2 757 247	6 376 341	11 126 988	18 709 904	1 354 573	2 005 350	15 238 808	27 091 595
Production costs of the sold production	-2 466 057	-5 051 323	-10 879 698	-17 488 009	-1 681 816	-2 068 705	-15 027 571	-24 608 037
Selling costs	-464	-457 080	-7 378	-2 317	-14 389	-37 681	-22 231	-497 078
General administration costs	-2 777	-4 515	-6 732	-13 321	-93 010	-203 402	-102 519	-221 238
Other income/expenditures from company's economic activity	-1 167	-8 812	-46 063	-112 634	-25 373	-223 656	-72 603	-345 102
<b>Profit or loss from economic activity</b>	<b>286 782</b>	<b>854 611</b>	<b>187 117</b>	<b>1 093 623</b>	<b>-460 015</b>	<b>-528 094</b>	<b>13 884</b>	<b>1 420 140</b>
Other interset income/payments and the like income	-2 504	-5 565	-27 543	-18 074	-58 352	-90 078	-88 399	-113 717
Company's deferred income tax	0	0	0	0	0	-209 138	0	-209 138
Other taxes	0	0	-2 845	0	148	-12 592	-2 697	-12 592
Income from segments activities	3 692	-85 045	-89 567	-55 211	85 875	140 256	0	0
<b>Profit or (loss)</b>	<b>287 970</b>	<b>764 001</b>	<b>67 162</b>	<b>1 020 338</b>	<b>-432 344</b>	<b>-699 646</b>	<b>-77 212</b>	<b>1 084 693</b>
Segment assets	3 484 205	4 030 763	14 060 659	11 827 345	1 711 711	1 267 669	19 256 575	17 125 777
Segment liabilities	3 160 046	3 515 430	13 941 423	12 170 647	2 155 106	1 439 700	19 256 575	17 125 777

	Logging		Timber processing		Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	3 923 209	9 072 716	15 832 278	26 621 795	1 927 384	2 853 356	21 682 870	38 547 867
Production costs of the sold production	-3 508 883	-7 187 385	-15 480 416	-24 883 195	-2 393 009	-2 943 502	-21 382 307	-35 014 082
Selling costs	-660	-650 366	-10 498	-3 297	-20 474	-53 615	-31 632	-707 278
General administration costs	-3 951	-6 424	-9 579	-18 954	-132 341	-289 415	-145 871	-314 793
Other income/expenditures from company's economic activity	-1 660	-12 538	-65 542	-160 264	-36 103	-318 234	-103 305	-491 036
<b>Profit or loss from economic activity</b>	<b>408 054</b>	<b>1 216 002</b>	<b>266 244</b>	<b>1 556 085</b>	<b>-654 542</b>	<b>-751 410</b>	<b>19 755</b>	<b>2 020 677</b>
Other interset income/payments and the like income	-3 563	-7 918	-39 190	-25 717	-83 027	-128 169	-125 780	-161 805
Company's deferred income tax	0	0	0	0	0	-297 577	0	-297 577
Other taxes	0	0	-4 048	0	211	-17 917	-3 837	-17 917
Income from segments activities	5 253	-121 008	-127 442	-78 558	122 189	199 566	0	0
<b>Profit or (loss)</b>	<b>409 744</b>	<b>1 087 075</b>	<b>95 563</b>	<b>1 451 810</b>	<b>-615 170</b>	<b>-995 507</b>	<b>-109 863</b>	<b>1 543 379</b>
Segment assets	4 957 577	5 735 259	20 006 515	16 828 796	2 435 545	1 803 731	27 399 638	24 367 785
Segment liabilities	4 496 340	5 002 006	19 836 857	17 317 271	3 066 440	2 048 508	27 399 638	24 367 785

The Holding shows information through particular segments.

The above table shows the Holding's profit or loss posts and the distribution of assets and liabilities through segments:

The management of the Holding believe that it is not useful to prepare cash flow statements through different segments.

Segment descriptions:

*Logging*

Income in this segment mainly arises from selling of round timber, obtained in logging, and timber transportation in the territory of Latvia and from the income from logging services.

*Timber processing*

Income in this segment mainly arises from selling of sawn timber which was obtained in the production process and from rendering of different services which are related to timber processing.

*Other*

Collected lease payments for the use of the company's real estate and other income which is not related to the company's economic activity.

**4. Net turnover through geographical segments**

Since the economic activity of the Holding is mainly performed in Latvia and all significant assets are situated in Latvia, the management believe that it is not useful to prepare a statement through geographical segments as the amount of income from different geographical segments does not exceed 10 % of total income.

	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	LVL	LVL	EUR	EUR
<b>Income from sales, int. AI.</b>	<b>14 349 895</b>	<b>25 309 169</b>	<b>20 418 061</b>	<b>36 011 703</b>
Latvia	14 344 148	25 309 169	20 409 884	36 011 703
Other countries	5 747		8 177	
<b>Income from rendering of services, int. AI.</b>	<b>717 840</b>	<b>1 468 057</b>	<b>1 021 394</b>	<b>2 088 857</b>
Latvia	717 840	1 468 057	1 021 394	2 088 857
<b>Financing of the EU structural funds</b>	<b>171 073</b>	<b>314 369</b>	<b>243 415</b>	<b>447 307</b>
	<b>15 238 808</b>	<b>27 091 595</b>	<b>21 682 870</b>	<b>38 547 867</b>