

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

(SINGLE REGISTRATION NUMBER 40003020121)

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

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2013

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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, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – 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 Vēsminš</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>)
Legal status of the company	(100%) Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 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
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 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
Name and address of the Auditor	(Translated from Latvian) Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.127

Management announcement

To Consolidated report of economic activity for 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.

The consolidated loss of the holding JSC „Saldus mežrūpniecība” of year 2013 first 6 months from economic activities loss is 151 706 LVL, whereby Net turnover is 15 613 531 LVL, which comprise loss per emitted share 0,39 LVL.

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

Forecasts for financial indicators and plans for economic activities in 2013

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

Business and financial risk management policy

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

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

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

August 30, 2013

Board :

Janis Bertrams
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Statement of Management Responsibility

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

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

Consolidated income statement

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL	LVL	EUR	EUR
Net turnover	15 613 531	27 417 706	22 216 053	39 011 881
Production costs of the sold production	-15 357 017	-24 908 517	-21 851 067	-35 441 627
Gross profit	256 514	2 509 189	364 987	3 570 254
Selling costs	-59 898	-557 079	-85 227	-792 652
General administration costs	-129 109	-288 346	-183 706	-410 279
Other income from company's economic activity	186 902	167 362	265 938	238 135
Other expenditures from company's economic activity	-307 083	-512 464	-436 940	-729 171
Profit or loss from economic activity	-52 674	1 318 662	-74 948	1 876 287
Other interest income and the like income	211	44 742	300	63 662
Other interest payments and the like payments	-96 380	-190 975	-137 136	-271 733
Profit or loss before extraordinary items and taxes	-148 843	1 172 429	-211 785	1 668 216
Company's deferred income tax		-209 138		-297 577
Other taxes	-2 863	-12 792		-18 201
Profit or (loss)	-151 706	950 499	-215 858	1 352 438
Profit/loss on share	-0,39	2,46	-0,56	3,49
lats per share/EUR per share				

The annex is an integral part of this financial statement

Board :

Janis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Consolidated balance sheet

ASSETS

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trademarks and the like items	2 379	9 021	3 385	12 836
Uzņēmuma nemateriālā vērtība	254 001	227 096	361 411	323 128
TOTAL	256 380	236 117	364 796	335 964
Fixed assets				
Land, premises and buildings	4 166 062	3 923 558	5 927 772	5 582 720
Equipment and machinery	6 613 094	7 170 990	9 409 585	10 203 400
Other fixed assets	57 764	62 146	82 191	88 426
Unfinished constructions	2 142 843	991 272	3 048 991	1 410 453
Advance payments for fixed assets	46 873	46 025	66 694	65 488
TOTAL	13 026 636	12 193 991	18 535 233	17 350 486
Biological assets	719 301	719 301	1 023 473	1 023 473
Long-term financial investments				
Atliktā nodokļa aktīvs	1 141	1 210	1 623	1 722
TOTAL	1 141	1 210	1 623	1 722
TOTAL LONG-TERM INVESTMENTS	14 003 458	13 150 619	19 925 126	18 711 645
CURRENT ASSETS				
Stocks				
Raw materials, direct materials, auxiliary materials	240 263	201 679	341 863	286 963
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	398 609	436 764	567 170	621 459
Advance payments for goods	72 941	81 523	103 786	115 997
TOATL	2 714 314	2 516 969	3 862 121	3 581 324
Noncurrent assets held for sale				
Fixed assets held for sale	53 616	62 203	76 289	88 507
Debtors				
Debts of buyers and customers	1 979 813	946 264	2 817 020	1 346 412
Other debtors	109 885	170 977	156 352	243 278
Expenditures of the next periods	242 876	236 834	345 581	336 984
TOTAL	2 332 574	1 354 075	3 318 954	1 926 675
Money and its equivalents	18 446	24 414	26 246	34 738
TOTAL CURRENT ASSETS	5 118 950	3 957 661	7 283 610	5 631 244
TOTAL ASSETS	19 122 408	17 108 280	27 208 735	24 342 889

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

Consolidate balance sheet (continuation)

LIABILITIES

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	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
Fluctation of exchange rate	-12 620	-3 847	-17 957	-5 474
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 previos year	907 317	-73 963	1 290 996	-105 240
Retained earnings from the year of accunt	-148 048	950 499	-210 653	1 352 438
Total shareholders'equity	4 561 349	4 687 389	6 490 215	6 669 554
Long-term liabilities				
Deferred company's income tax	184 108	184 108	261 962	261 962
Long-term loans from credit institutions	8 506 310	3 703 884	12 103 389	5 270 152
Other creditors	963 874	4 108 420	1 371 469	5 845 755
Acrued liabilities	109 544	109 544	155 867	155 867
Long-term part of incomes from next periods	1 599 105	395 725	2 275 321	563 066
TOTAL	11 362 941	8 501 681	16 168 008	12 096 802
Short-term liabilities				
Short-term loans from credit institutions	1 021 506	924 733	1 453 472	1 315 777
Short-term part of financial lease	0	7 415	0	10 551
Debts to suppliers and contractors	1 544 553	2 314 369	2 197 701	3 293 050
Liabilities provisions	33 243	91 430	47 301	130 093
Taxes payable	162 105	162 677	230 655	231 469
Other creditors	94 524	76 399	134 496	108 706
Incomes from the next periods short-term part	342 187	342 187	486 888	486 888
TOTAL	3 198 118	3 919 210	4 550 512	5 576 533
Total liabilities	14 561 059	12 420 891	20 718 520	17 673 336
Total shareholders'equity and liabilities	19 122 408	17 108 280	27 208 735	24 342 889

The annex is an integral part of this financial statement

Board:

Janis Bertrāns
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Consolidated cash flow statement

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	-148 843	1 172 429	-211 785	1 668 216
wear and tear of fixed assets and intangible investments (+)	752 342	1099021	1 070 486	1 563 766
elimination of fixed assets and intangible investments	0	28,73	0	41
revaluation of long-term investments	0	-63130	0	-89 826
revaluation of biological assets	0	-233234	0	-331 862
Accruals (except accruals for doubtful debts)	0	22577	0	32 124
profit (-) or loss (+) from fluctuations of exchange rate	-3 391	-28	-4 825	-40
Interest income	0	-23248	0	-33 079
Income from finansation recognition	1 203 380	-208693	1 712 255	-296 943
Interest expenditure	74 018	124055	105 318	176 514
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	1 877 506	1 889 778	2 671 450	2 688 911
increase (+) or decrease (-) of debtors debt	-978 499	-640 378	-1 392 279	-911 176
increase (+) or decrease (-) of the reserves of accruals	-188 758	-165 888	-268 578	-236 037
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-3 954 996	780 545	-5 627 452	1 110 615
Gross cash flow from basic activity	-3 244 747	1 864 057	-4 616 859	2 652 314
Expenditures to pay interest payments	-74 018	-124055	-105 318	-176 514
Net cash flow from basic activity	-3 318 765	1 740 002	-4 722 177	2 475 799
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	0	402273	0	572 383
Acquisition of fixed assets and intangible investments	-428 704	-2087540	-609 991	-2 970 302
Expenditures for advance payments for fixed assets and unfinished	-1 151 571	-285825	-1 638 538	-406 692
Net cash flow from investments	-1 580 275	-1 971 092	-2 248 529	-2 804 611
III. Cash flow from financing activities				
Recieved loans	5 700 409	571 908	8 110 951	813 752
Expenditures for paying back loans	-801 210	-195 813	-1 140 019	-278 617
Expenditures for redemption of asset that was hired	-7 415	-130 786	-10 551	-186 092
Cash flow from financing activities	4 891 784	245 309	6 960 382	349 043
IV. Fluctuations of exchange rate	1 288	5 169	1 833	7 355
V. Net cash flow of the year of account increase (+), decrease (-)	-5 968	19 388	-8 492	27 586
VI. Money and its equivalents balance at the beginning of the year of account	24 414	5 026	34 738	7 151
VII. Money and its equivalents balance at the end of the year of account	18 446	24 414	26 246	34 738

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	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2011	387 136	802 492	-36 663	1 987	2 623 085	-414 608	326 349	3 689 778
Fluctuation of exchange rate	0	0	47 113	0	0	0	0	47 113
Distribution of profit of the year 2011	0	0	-14 297	0	0	340 645	-326 349	0
Profit of the year of account	0	0	0	0	0	0	950 499	950 499
December 31, 2012	387 136	802 492	-3 847	1 987	2 623 085	-73 963	950 499	4 687 389
Fluctuation of exchange rate	0	0	22 008	0	0	0	0	22 008
Distribution of profit of the year 2012	0	0	-30 781	0	0	981 280	-950 499	0
Profit of the year of account	0	0	0	0	0	0	-148 048	-148 048
June 30, 2013	387 136	802 492	-12 620	1 987	2 623 085	907 317	-148 048	4 561 349

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	Total own capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2011	550 845	1 141 843	-52 167	2 827	3 732 314	-589 934	464 353	5 250 081
Fluctuation of exchange rate	0	0	67 036	0	0	0	0	67 036
Distribution of profit of the year 2011	0	0	-20 343	0	0	484 694	-464 353	0
Profit of the year of account	0	0	0	0	0	0	1 352 438	1 352 438
December 31, 2012	550 845	1 141 843	-5 474	2 827	3 732 314	-105 240	1 352 438	6 669 554
Fluctuation of exchange rate	0	0	31 315	0	0	0	0	31 315
Distribution of profit of the year 2012	0	0	-43 797	0	0	1 396 236	-1 352 438	0
Profit of the year of account	0	0	0	0	0	0	-210 653	-210 653
June 30, 2013	550 845	1 141 843	-17 957	2 827	3 732 314	1 290 996	-210 653	6 490 215

Board:

Janis Bertrams
Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Annex to the financial statement

1. Corporative information

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

As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2013 first 6 month consolidated report, hereinafter Holding company.

2. Important accounting principles

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

Principles of preparing the financial statement

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

Currency and items used in the preparation of the financial statement

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

Consolidation

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

Consolidation of foreign subsidiary companies

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

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

Amendments to IFRS 7 “Financial Instruments: Disclosures” - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Group’s accounting policies. *Standards and Interpretations issued by IASB and adopted by the EU but not yet effective.*

At the date of authorization of these financial statements the following standards revisions and interpretations adopted by the EU were in issue but not yet effective:

IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

Amendments to IAS 1 “Presentation of financial statements” -Presentation of Items of Other

Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),

Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),

Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 10 “Consolidated Financial Statements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 11 “Joint Arrangements”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

IFRS 13 “Fair Value Measurement”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),

IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of all other standards revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Use of calculations (continuation)

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

Transactions in foreign currencies

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

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

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

Intangible investments

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could

be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

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

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

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

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

Capital assets

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

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

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

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

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

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

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

Noncurrent assets held for sales

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

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

Biological assets

In 2008 the company management decided to change accountancy policies for forest stands, complying with IAS 41 Agriculture. According to the new accountancy policy the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2011 applying discount rate of 6%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2011. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the

reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Decrease of the value of assets

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

Loan costs

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

Lease

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

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

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

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

Share capital

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

Profit per share

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

Credits and loans

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

Further loans will be shown in their depreciation value.

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

Accruals

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

Accruals and deferred liabilities

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

Income recognition

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

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

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

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

Sale of goods

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

Interest

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

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

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

Taxes

Company income tax

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

Deferred company income tax

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

Possible liabilities and assets

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

Allowances

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

Associated persons

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

Events after the end of the year of account

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

3. Segments of the Holding activities

	Logging		Timber processing		Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	3 117 506	6 692 949	11 141 452	18 719 227	1 354 573	2 005 530	15 613 531	27 417 706
Production costs of the sold production	-2 795 503	-5 350 085	-10 879 698	-17 489 727	-1 681 816	-2 068 705	-15 357 017	-24 908 517
Selling costs	-14 203	-464 494	-31 306	-54 904	-14 389	-37 681	-59 898	-557 079
General administration costs	-15 403	-14 857	-20 497	-67 894	-93 210	-205 594	-129 109	-288 345
Other income/expenditures from company's economic activity	-1 511	-8 812	-93 297	-112 634	-25 373	-223 656	-120 181	-345 102
Profit or loss from economic activity	290 887	854 701	116 654	994 068	-460 215	-530 106	-52 674	1 318 663
Other interest income/payments and the like income	-2 836	-6 885	-34 206	-41 179	-59 127	-98 169	-96 169	-146 234
Company's deferred income tax	0	0	0	0	0	-209 138	0	-209 138
Other taxes	0	0	-2 845	0	-18	-12 792	-2 863	-12 792
Income from segments activities	3 692	-85 045	-89 567	-55 211	85 875	140 256	0	0
Profit or (loss)	291 743	762 771	-9 964	897 678	-433 485	-709 949	-151 705	950 499

	2013	2012	2013	2012
	LVL	LVL	EUR	EUR
Income from sales, int. AI.	14 710 154	25 625 777	20 930 664	36 462 196
Latvia	14 344 148	25 309 169	20 409 884	36 011 703
Other countries	366 006	316 608	520 780	450 493
Income from rendering of services, int. AI.	732 304	1 583 055	1 041 975	2 252 484
Latvia	717 840	1 573 732	1 021 394	2 239 219
Other countries	14 464	9 323	20 580	13 265
Financing of the EU structural funds	171 073	208 694	243 415	296 945
	15 613 531	27 417 526	22 216 053	39 011 625