

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2013 (UNAUDITED)

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

Saldus, 2014

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Rīga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – 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 Martins Knipsis (<i>Mārtiņš Knipsis</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 –December 31, 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 –December 31, 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 –December 31, 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 year 2013 are 351 175 LVL at the net turnover of 30 529 875 LVL, which means loss on one share issued of 0.91 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 2014

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.

February 28, 2014

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 31 December 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

	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	LVL	LVL	EUR	EUR
Net turnover	30 529 875	27 091 595	43 440 099	38 547 867
Production costs of the sold production	-30 345 449	-24 608 037	-43 177 684	-35 014 082
Gross profit	184 426	2 483 558	262 415	3 533 785
Selling costs	-41 370	-497 078	-58 864	-707 278
General administration costs	-234 719	-221 238	-333 975	-314 793
Other income from company's economic activity	364 009	167 362	517 938	238 135
Other expenditures from company's economic activity	-411 007	-512 464	-584 810	-729 171
Profit or loss from economic activity	-138 661	1 420 140	-197 297	2 020 677
Other interest income and the like income	40 181	31 785	57 172	45 226
Other interest payments and the like payments	-238 749	-145 502	-339 709	-207 031
Profit or loss before extraordinary items and taxes	-337 229	1 306 423	-479 834	1 858 872
Company's income tax				
Company's deferred income tax	0	-209 138	0	-297 577
Other taxes	-13 946	-12 592	-19 843	-17 917
Profit or (loss)	-351 175	1 084 693	-499 677	1 543 379
Profit/loss on share	-0,91	2,80	-1,29	3,99
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

	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trademarks and the like items	2 920	3 631	4 155	5 166
TOTAL	2 920	3 631	4 155	5 166
Fixed assets				
Land, premises and buildings	4 245 150	3 378 883	6 040 304	4 807 717
Equipment and machinery	8 050 846	7 021 772	11 455 322	9 991 081
Other fixed assets	56 473	62 084	80 354	88 338
Unfinished constructions	29 657	912 400	42 198	1 298 229
Advance payments for fixed assets	0	46 025	0	65 488
TOTAL	12 382 126	11 421 164	17 618 178	16 250 853
Biological assets				
	654 958	719 301	931 921	1 023 473
Long-term financial investments				
Participation in the capital of related companies	709 234	709 234	1 009 149	1 009 149
Loans to the related companies	719 313	632 020	1 023 490	899 283
TOTAL	1 428 547	1 341 254	2 032 639	1 908 433
TOTAL LONG-TERM INVESTMENTS	14 468 551	13 485 350	20 586 893	19 187 925
CURRENT ASSETS				
Stocks				
Raw materials, direct materials, auxiliary materials	49 602	39 071	70 577	55 593
Biological assets	346 605	251 989	493 174	358 548
Unfinished production	1 826 621	1 545 014	2 599 047	2 198 357
Finished production and goods for sale	726 179	390 969	1 033 260	556 299
Advance payments for goods	17 153	17 153	24 406	24 407
TOATL	2 966 160	2 244 196	4 220 465	3 193 204
Noncurrent assets held for sale				
Fixed assets held for sale	53 616	62 203	76 289	88 507
Debtors				
Debts of buyers and customers	2 730 989	933 164	3 885 847	1 327 773
Debts of subsidiaries	323 964	266 003	460 959	378 488
Other debtors	28 866	103 014	41 073	146 576
Expenditures of the next periods	17 654	21 413	25 119	30 468
TOTAL	3 101 473	1 323 594	4 412 999	1 883 305
Money and its equivalents				
	19 857	10 433	28 254	14 845
TOTAL CURRENT ASSETS	6 141 106	3 640 426	8 738 006	5 179 860
TOTAL ASSETS	20 609 657	17 125 777	29 324 899	24 367 786

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

Balance sheet (continuation)

	31.12.2013	31.12.2012	31.12.2013	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
Reserves from revaluation of long-term investments	780 332	802 492	1 110 312	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	-351 175	1 084 693	-499 677	1 543 379
Total shareholders' equity	4 960 218	5 333 553	7 057 754	7 588 962
Accruals for holiday	140 400	109 544	199 771	155 867
TOTAL	140 400	109 544	199 771	155 867
Long-term liabilities				
Long-term loans from credit institutions	9 651 910	3 506 035	13 733 431	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	1 428 042	395 725	2 031 921	563 066
TOTAL	12 189 419	8 111 227	17 343 981	11 541 236
Short-term liabilities				
Short-term loans from credit institutions	1 098 244	912 099	1 562 660	1 297 800
Short-term part of financial lease	0	7 415	0	10 551
Debts to suppliers and contractors	1 658 681	1 999 376	2 360 090	2 844 856
Advance payments received from buyers	63 700	91 430	90 637	130 093
Taxes payable	84 257	142 547	119 887	202 826
Other creditors	72 561	76 399	103 245	108 706
Incomes from the next periods short-term part	342 177	342 187	486 874	486 888
TOTAL	3 319 620	3 571 453	4 723 394	5 081 720
Total liabilities	15 509 039	11 682 680	22 067 374	16 622 956
Total shareholders' equity and liabilities	20 609 657	17 125 777	29 324 900	24 367 786

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

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:	-337 229	1 306 423	-479 834	1 858 872
wear and tear of fixed assets and intangible investments (+)	1 384 204	1 047 857	1 969 545	1 490 966
elimination of fixed assets and intangible investments	4	29	6	41
revaluation of long-term investments	-25 120	-63 130	-35 743	-89 826
revaluation of biological assets	31 835	-233 234	45 297	-331 862
Accruals (except accruals for doubtful debts)	30 856	22 577	43 904	32 124
profit (-) or loss (+) from fluctuations of exchange rate	12 121	-7 474	17 247	-10 635
Interest income	-36 150	-23 248	-51 437	-33 079
Income from finansation recognition	1 032 307	-208 693	1 468 841	-296 943
Interest expenditure	187 931	124 055	267 402	176 514
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	2 280 759	1 965 162	3 245 228	2 796 173
increase (+) or decrease (-) of debtors debt	-1 743 165	-726 517	-2 480 300	-1 033 741
increase (+) or decrease (-) of the reserves of accruals	-713 377	-119 196	-1 015 044	-169 601
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-3 544 499	738 948	-5 043 368	1 051 428
Gross cash flow from basic activity	-3 720 282	1 858 397	-5 293 484	2 644 260
Expenditures to pay interest payments	-187 931	-124 055	-267 402	-176 514
Net cash flow from basic activity	-3 908 213	1 734 342	-5 560 886	2 467 746
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	63 000	402 273	89 641	572 383
Acquisition of fixed assets and intangible investments	-2 371 991	-1 241 169	-3 375 039	-1 766 024
Expenditures for advance payments for fixed assets and unfinished	0	-1 114 100	0	-1 585 221
Loans issued	-97 977	-86 196	-139 409	-122 646
Net cash flow from investments	-2 406 968	-2 039 192	-3 424 807	-2 901 509
III. Cash flow from financing activities				
Recieved loans	7 248 774	571 908	10 314 076	813 752
Expenditures for paying back loans	-916 754	-130 370	-1 304 423	-185 500
Expenditures for redemption of asset that was hired	-7 415	-130 786	-10 551	-186 092
Cash flow from financing activities	6 324 605	310 752	8 999 102	442 160
IV. Fluctuations of exchange rate	0	0	0	0
V. Net cash flow of the year of account increase (+), decrease (-)	9 424	5 902	13 409	8 397
VI. Money and its equivalents balance at the beginning of the year of account	10 433	4 531	14 845	6 447
VII. Money and its equivalents balance at the end of the year of account	19 857	10 433	28 254	14 845

The annex is an integral part of this financial statement

Board:

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Chairman of board

Janis Mierkalns
Member of board

Gatis Zommers
Member of board

Statement on the changes in own capital

December 31, 2011	387 136	1 987	802 492	2 623 085	-100 796	534 956	4 248 860
Distribution of profit of the year 2012	0	0	0	0	534 956	-534 956	0
Investment revaluation reserve	0	0	0	0	0	0	0
Profit of the year of account	0	0	0	0	0	1 084 693	1 084 693
December 31, 2012	387 136	1 987	802 492	2 623 085	434 160	1 084 693	5 333 553
Distribution of profit of the year 2012	0	0	0	0	1 084 693	-1 084 693	0
Investment revaluation reserve	0	0	-22 160	0	0	0	-22 160
Profit of the year of account	0	0	0	0	0	-351 175	-351 175
December 31 2013	387 136	1 987	780 332	2 623 085	1 518 853	-351 175	4 960 218
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2011	550 845	2 827	1 141 843	3 732 314	-143 420	761 174	6 045 583
Distribution of profit of the year 2011	0	0	0	0	761 174	-761 174	0
Investment revaluation reserve	0	0	0	0	0	0	0
Profit of the year of account	0	0	0	0	0	1 543 379	1 543 379
December 31, 2012	550 845	2 827	1 141 843	3 732 314	617 754	1 543 379	7 588 962
Distribution of profit of the year 2012	0	0	0	0	1 543 379	-1 543 379	0
Investment revaluation reserve	0	0	-31 531	0	0	0	-31 531
Profit of the year of account	0	0	0	0	0	-499 677	-499 677
December 31 2013	550 845	2 827	1 110 312	3 732 314	2 161 133	-499 677	7 057 754

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Board:

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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 31 December 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:.

	31.12.2013	31.12.2012
	Ls	Ls
1 RUB	0.0156	0.0174
1 USD	0.515	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 assests are accounted for their cost value which is depreciated for the useful life of assets on a sraight line basis. Should any events or conditions indicate that accounting value of intangible assets be non-recoverable, the value of respective intangible assets is revalued in order to establish decrease of accounting value of intangible assets. Losses resulting from decrease of value are accounted when the accounting value of intangible assets increases the recoverable amount.

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

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

Property, plant and equipment

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

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

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

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

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

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

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2013 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 2013. 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	4 422 853	6 376 341	23 192 259	18 709 904	2 914 763	2 005 350	30 529 875	27 091 595
Production costs of the sold production	-4 086 499	-5 051 323	-22 786 480	-17 488 009	-3 473 283	-2 068 705	-30 346 262	-24 608 037
Selling costs	-1 867	-457 080	-10 585	-2 317	-28 918	-37 681	-41 370	-497 078
General administration costs	-5 875	-4 515	-12 655	-13 321	-215 376	-203 402	-233 906	-221 238
Other income/expenditures from company's economic activity	-2 594	-8 812	-88 874	-112 634	44 470	-223 656	-46 998	-345 102
Profit or loss from economic activity	326 018	854 611	293 665	1 093 623	-758 344	-528 094	-138 661	1 420 140
Other interset income/payments and the like income	-5 185	-5 565	-63 958	-18 074	-129 425	-90 078	-198 568	-113 717
Company's deferred income tax	0	0	0	0	0	-209 138	0	-209 138
Other taxes	0	0	-5 680	0	-8 266	-12 592	-13 946	-12 592
Income from segments activities	-9 559	-85 045	-155 749	-55 211	165 308	140 256	0	0
Profit or (loss)	311 274	764 001	68 278	1 020 338	-730 727	-699 646	-351 175	1 084 693
Segment assets	2 985 714	4 030 763	15 656 288	11 827 345	1 967 655	1 267 669	20 609 657	17 125 777
Segment liabilities	2 775 345	3 515 430	15 475 433	12 170 647	2 358 879	1 439 700	20 609 657	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	6 293 153	9 072 716	32 999 612	26 621 795	4 147 334	2 853 356	43 440 099	38 547 867
Production costs of the sold production	-5 814 564	-7 187 385	-32 422 240	-24 883 195	-4 942 036	-2 943 502	-43 178 841	-35 014 082
Selling costs	-2 657	-650 366	-15 061	-3 297	-41 147	-53 615	-58 864	-707 278
General administration costs	-8 359	-6 424	-18 006	-18 954	-306 452	-289 415	-332 818	-314 793
Other income/expenditures from company's economic activity	-3 691	-12 538	-126 456	-160 264	63 275	-318 234	-66 872	-491 036
Profit or loss from economic activity	463 882	1 216 002	417 848	1 556 085	-1 079 026	-751 410	-197 297	2 020 677
Other interset income/payments and the like income	-7 378	-7 918	-91 004	-25 717	-184 155	-128 169	-282 537	-161 805
Company's deferred income tax	0	0	0	0	0	-297 577	0	-297 577
Other taxes	0	0	-8 082	0	-11 761	-17 917	-19 843	-17 917
Income from segments activities	-13 601	-121 008	-221 611	-78 558	235 212	199 566	0	0
Profit or (loss)	442 903	1 087 075	97 151	1 451 810	-1 039 731	-995 507	-499 677	1 543 379
Segment assets	4 248 289	5 735 259	22 276 890	16 828 796	2 799 721	1 803 731	29 324 900	24 367 785
Segment liabilities	3 948 960	5 002 006	22 019 557	17 317 271	3 356 383	2 048 508	29 324 900	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.

	2013 LVL	2012 LVL	2013 EUR	2012 EUR
Income from sales, int. AI.	28 696 427	25 309 169	40 831 337	36 011 703
Latvia	28 690 680	25 309 169	40 823 160	36 011 703
Other countries	5 747	0	8 177	0
Income from rendering of services, int. AI.	1 491 302	1 573 732	2 121 932	2 239 219
Latvia	1 491 302	1 573 732	2 121 932	2 239 219
Financing of the EU structural funds	342 146	208 694	486 830	296 945
	30 529 875	27 091 595	43 440 099	38 547 867