

AS "TALSU MEŽRŪPNIECĪBA"

(REGISTRATION NUMBER 40003113243)

**FINANCIAL REPORT FOR 9 MONTHS
OF THE YEAR 2014**

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT FOR 9 MONTHS OF THE YEAR 2014

Content

	Page
General Information	3
Management Report	4
Profit and Loss statement	5
Balance Sheet	6-7
Equity Statement	8
Cash Flow Statement	9
Notes	10

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT FOR 9 MONTHS OF THE YEAR 2014

General information

Company name	A/s „Talsu Mežrūpniecība”
Legal Status	Joint stock company
Registration number, time and place	40003113243, Riga January 29, 1993
Legal address	Eksporta Street 26, Tukums, LV- 3104
Address of the executive bodies	Dumpīšu Street 3, Stende, LV – 3257
Shareholders	All Company shares are book-entry shares. Public placement at LCD – 230,000 shares are bearer Closed issue - 265,699 shares are registered shares
Board	Gatis Štāks , chairman of the Board Roja district, Parish Roja, Valgalciems, “Birzītes” Pēteris Klava , member of the Board Talsi district, Parish Libagi, “Veikals” Andis Gribusts , member of the Board Talsi district, Parish Lauciene, „Dzelzkalēji”.
Supervisory Board	Oskars Derings , Chairman of the Supervisory Board, Talsi, Rīgas Street 3-13 Eva Dēringa , member of the Supervisory Board Talsi, Rīgas Street 3-13 Alda Kiore , member of the Supervisory Board Talsi district, Stende, Robezu Street 4. Asmeralda Kļava , member of the Supervisory Board Talsi district, Parish Abava, „Vītiņi”. Gita Emerberga , member of the Supervisory Board Kaltene, Rojas district, “Foreles-3”.
Period	01.01.2014.-30.09.2014.
Audithor	Daiga Baraua , sworn audithor, No. Sertificate 89, “Lejaskalēji”, Parish Valdgale, Talsi district, LV-3253 Latvia

MANAGEMENT REPORT

The main activities of the Company in 2014 were logging and production of timber products: peeled and turn poles production in timber processing unit.

During 9 months 2014, 11 871 m³ pales were produced in the timber processing unit and woodchips of 22 820 m³ were sold.

Total revenues for the Company during 9 months 2014 were EUR 1 930 456. Revenues from access EUR 18000,-

The result for 9 months 2014 is profit EUR 155 595 which corresponds to EUR 0.3138 profit per share.

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

Suggestions for distribution of profit and covering of losses

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

Board:

Gatis Štāks
Chairman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

October 15, 2014

Profit and Loss Statement

	Note	2014	2013
		EUR	EUR
Revenues	2	1 930 456	1 476 880
Cost of goods sold	3	(1 737 288)	(1 423 936)
Gross result		193 168	52 944
Administration expenses	4	(43 328)	(41 075)
Other operating income	5	18 579	11 110
Other operating expenses	6	8 817	7 168
Financial income	7	516	324
Financial expenses	8	(3 280)	(5 683)
Profit (loss) before taxes		156 838	10 452
Deferred corporate income tax	9; 18	-	-
Other taxes	17	(1 243)	(1 588)
Net profit (loss)		155 595	8 864

Notes on pages 10 to 18 are integral part of the financial statements

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October 15, 2014

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT FOR 9 MONTHS OF THE YEAR 2014

Balance Sheet

ASSETS			
LONG TERM ASSETS	Note	30.09.2014.	30.09.2013.
		EUR	EUR
Fixed assets			
Land, buildings and constructions		122 759	128 788
Machinery and equipments		238 883	171 033
Other fixed assets		61 405	73 547
Leasing		180 579	47 917
TOTAL	10	603 626	421 285
TOTAL LONG TERM ASSETS		603 626	421 285
CURRENT ASSETS			
Inventories			
Materials		10 641	9 899
Production in progress		19 713	68 638
Goods for sale		48 033	163 344
Advances for goods		6 403	6 403
TOTAL		84 790	248 284
Debtors			
Trade receivables, net	11	154 355	150 321
Other debtors	12	11 415	7 782
Prepaid expenses		4 710	4 999
TOTAL		170 480	163 102
Cash and cash equivalents		163 870	1 403
TOTAL CURRENT ASSETS		419 140	412 788
TOTAL ASSETS		1 022 766	834 073

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October 15, 2014

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 6 MONTHS OF THE YEAR 2014

EQUITY AND LIABILITIES

			30.09.2014.	30.09.2013
EQUITY	Piezīme		EUR	EUR
Share capital	13		705 316	705 316
Retained earnings			-	-
Prior year loss			(165 432)	(197 950)
Current year profit (loss)			155 595	8 864
Total equity			695 479	516 230
Provisions				
Other provisions	14		18 792	9 335
TOTAL PROVISIONS			18 792	9 335
LIABILITIES				
Long term liabilities				
Loans from credit institutions	16		93 179	26 145
Other loans	16			37 350
Deferred tax liabilities	18		25 339	25 302
TOTAL			118 518	88 797
Short term liabilities				
Other loans	16		7 960	2 372
Loans from credit institutions	16		27 746	24 047
Advances from customers			-	-
Liabilities for other customers			121 941	160 016
Taxes and social security payment	17		11 998	11 995
Other creditors			17 706	17 456
Occrued liabilities	15		2 626	3 825
TOTAL			189 977	219 711
TOTAL LIABILITIES			308 495	308 508
TOTAL EQUITY AND LIABILITIES			1 022 766	834 073

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

Board:

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Chairman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

October 15, 2014

Equity Statement

EUR	Share capital	Prior period loss	Current period profit (loss)	Total
January 1, 2013	705 316	(242 718)	44 768	507 366
Transferred to prior period losses	-	44 768	(44 768)	-
Current period loss	-	-	8 864	8 864
June 30, 2013	705 316	(197 950)	8 864	516 230
Transferred to prior period losses	-	25 132	(1 478)	23 654
Current period profit	-	-	155 595	155 595
September 30, 2014	705 316	(172 818)	162 981	695 479

Notes on pages 10 to 18 are integral part of the financial statements.

Board:

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Chairman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

October 15, 2014

Cash Flow Statement
(prepared based on indirect method)

	2014	2013
Operating cash flow	EUR	EUR
Profit (loss) before taxes	156 838	10 452
Adjustments:		
Depreciation	44 488	41 505
Interest (income)/expenses	2 764	(5 683)
Increases/(decrease) in provisions	9 457	(4 519)
Asset writte offs		
(Profit)/loss from sale of fixed assets		
Revaluation of biological assets		
(profit)/loss from currency fluctuations		
Operating cash flow before changes in current assets	213 547	41 755
Decrease/(increase) of inventories	97 491	(32 127)
Decrease/(increase) of debtors	(47 620)	(38 137)
Increases/(decrease) in creditors	133 729	(43 997)
Operating cash flow	397 147	72 506
Interest paid		
Corporate income tax paid		(6 639)
Real estate tax paid	(1 243)	(1 588)
Net operating cash flow	395 904	(80 733)
Cash flow from investing activities		
Acquisition of long term assets	(228 260)	(59 207)
Income from sale of fixed assets	18 000	20 105
Net cash flow from investing activities	(210 260)	(39 102)
Cash flow from financing activities		
Loand(paid), net	(33 323)	(16 987)
Loand received, net	330	
Net financing cash flow	(32 993)	(16 987)
Cash increase/(decrease)	152 651	136 822
Cash at the beginning of the year	11 219	138 225
Cash at the end of the year	163 870	1 403

Notes on pages 10 to 18 are integral part of the financial statements.

Board:

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Chairman of the Board

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October 15, 2014

Notes

1. Significant accounting policies

Annual report preparation principles

The annual report is prepared in accordance with the Law on Accounting, Law of Annual Accounts and Latvian accounting standards applicable .

Profit and loss statement was prepared based on turnover method.

Cash flow statement is prepared by indirect method.

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

Annual report is prepared based on the going concern principle.

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

Foreign currency translation

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

	30.09.2014. EUR	30.09.2013. EUR
1 GBP	0.7807	1.193

Fixed assets

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

Fixed assets are stated at historical value less accumulated depreciation.

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

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

1. Significant accounting policies (continued)

Inventories

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

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

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

Receivables

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

Corporate income tax

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

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred taxation liability is determined based on the current tax rates. The principal temporary timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets, provision for vacation and accumulated tax losses.

Provisions

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

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 9 MONTHS OF THE YEAR 2014

2. Revenues

	2014		2013
	EUR		EUR
Timber product related revenues	1 776 843		1 329 405
Other revenues	153 613		147 475
Total:	1 930 456		9 476 880

Revenues according to geographical markets:

	2014		2013
	EUR		EUR
Latvia	1 102 661		1 030 472
Estonia			44 969
United Kingdom	827 795		401 439
Total:	1 930 456		1 476 880

3. Cost of goods sold

	2014	2013
	EUR	EUR
Cost of materials	1 160 826	937 555
Cost of external services	104 362	69 830
Depreciation	44 487	41 505
Salaries	205 733	182 552
Social contributions	56 558	51 970
Other costs of goods sold	165 322	140 524
Total:	1 737 288	1 423 936

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 9 MONTHS OF THE YEAR 2014

4. Administration expenses

	2014	2013
	EUR	EUR
Personnel costs	38 905	37 188
Other administration expenses	4 423	3 887
Total:	43 328	41 075

The Board does not receive remuneration

5. Other operating incomes

	2014	2013
	EUR	EUR
Income from assets	18 000	20 105
Fixed asset write offs		(10 438)
Disposals net result		
Proceeds from the transaction with certificates		
Income from certificates		
Other incomes	579	1 443
Total:	18 579	11 110

6. Other operating expenses

	2014	2013
	EUR	EUR
Stock exchange related expenses	7 618	6 975
Provisions for doubtful accounts		
Other expenses	1 199	193
Total:	8 817	7 168

7. Financial income

	2014	2013
	EUR	EUR
Income from currency fluctuations	516	324
Exchange losses		
Other income	-	-
Total:	516	324

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 9 MONTHS OF THE YEAR 2014

8. Financial expenses

	2014	2013
	EUR	EUR
Interest expenses	3 126	2 826
Incomes from currency		
Loss from currency fluctuations		
Result net currency losses	154	2857
Total:	3 280	5 683

9. Corporate income tax

	2014	2013
	EUR	EUR
Deferred corporate income tax income/ (expenses)		
Corporate income tax income		
Total:		

10. Fixed assets

EUR	Land, buildings and constructions	Machinery and equipment	Other fixed assets	Advances for fixed assets	TOTAL
Historical cost 31.12.2013	223 322	780 543	103 916	60 533	1 168 314
2014 Acquisitions	943	81 142	3 617	143 500	229 202
2014 Writte offs		(71 144)	(180)		(71 324)
Historical cost 30.09.2011	224 265	790 541	107 353	204 033	1 326 192
Accumulated depreciation 31.12.2013	96 277	601 452	33 003	14 130	744 862
2014 Depreciation	5 229	21 350	13 125	9 324	49 028
2014 Depreciation of assets written off		(71 144)	(180)		(71 324)
Accumulated depreciation 30.09.2014	101 506	551 658	45 948	23 454	722 566
Net book value 31.12.2013	127 045	179 091	70 913	46 403	423 452
Net book value 30.09.2014	122 759	238 883	61 405	180 579	603 626

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 9 MONTHS OF THE YEAR 2014

Cadastral value of assets of the Company:

	2014	2013
	EUR	EUR
Land	44 839	30 709
Buildings and constructions	70 100	85 605
Total:	114 939	116 315

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

11. Trade receivables, net

	2014	2013
	EUR	EUR
Gross trade receivables	154 355	150 321
Provisions for doubtful accounts		
Total:	154 355	150 321

12. Other debtors

	2014	2013
	EUR	EUR
VAT receivable	4 001	16 778
Other debtors	4 022	5 638
Prepayment	3 392	7 347
Total:	11 415	7 782

13. Share capital

Share capital of the Company consists of 495,699 shares with nominal value EUR 1.42288 per share.

	Number	Value (Ls)	Total value (EUR)
Close issue shares	265 699	1.42288	378 058
Public placement	230 000	1.42288	327 258
Total:	495 699		705 316

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 9 MONTHS OF THE YEAR 2014

14. Other provisions

	2014	2013
	EUR	EUR
Provisions for vacations	18 792	9 335
Other provisions		
Total:	18 792	9 335

15. Accrued liability

	2014	2013
	EUR	EUR
Accruals for prospective payment	2 626	3 825
Total:	2 626	3 825

16. Loans from credit institutions

	2014	2013
	EUR	EUR
<i>Long term</i>		
Lease for BMW	15 404	26 145
Lease for VOLVO	77 775	
SC SEB bank credit		37 350
<i>Short term</i>		
Lease for BMW	3 460	2 372
Lease for VOLVO	4 500	
SC SEB bank credit	27 746	24 047
Total:	128 885	89 914

AS „TALSU MEŽRŪPNIECĪBA”
FINANCIAL REPORT OF 9 MONTHS OF THE YEAR 2014

1) In accordance with provisions of the agreement TA 11249, the loan repayment shall be done in monthly principal repayments with final term November 24, 2014. The interest rate for the loan is 3 month RIGIBOR +3.41%. The Loan was take for VOLVO FM460, at 30th September, 2014 balance is EUR 27 746. As collateral for the loan serves as a mortgage on real property located in Dumpīšu Street 3, Stende, Talsu district, Financial lien on public funds and commercial mortgage on the newly purchased truck VOLVO FM 460, in accordance with the concluded contract Pledges No. TA11249 / KK-1, with the remaining book value of EUR 58 613 on 09/30/2014.

2) The Company entered into a credit line agreement TA10138, the threshold of EUR 142287.18 and maturity of 21/09/2014.

Interest rate 3,55% + 3M Rigibor. Used the credit balance on 30.09.2014. is EUR 0,00.

Secured by a mortgage on real estate Dumpīšu Street 3, Stende, Talsu region under the mortgage contract, the commercial pledge on the Company's existing and future fixed assets, inventories and claim rights and financial pledge to the Company's existing accounts of all cash receipts and claim the right amount.

3) The Company's financial leasing TA 11166th in accordance with its terms, the repayment is due in monthly principal installments with final maturity of July 25, 2016. Leasing interest rate of 4,506% per annum of the balance of the value of a fixed percentage 11.3%. financial leasing BMW X5 received iegādei. As collateral serves the leasing object. The carrying value of the pledged property EUR 41 863th amount to be paid the balance of EUR 18 864th.

4) The Company's financial leasing TA 14055th in accordance with its terms, the repayment is due in monthly principal installments with final maturity of May 25, 2019. Leasing interest rate of 4,506% per annum of the balance of the value of a fixed percentage 11.3%. Financial leasing received for buying BMW X5. Collateral serves the leasing object. The carrying value of the pledged property EUR 138 717th, amount to be paid the balance of EUR 82 275th.

17. Taxes payable

EUR	(Liabilities)/	Calculated	2014		(Liabilities)/
	assets		Tranferred to	Paid/(claimed	assets
	31.12.2013		other taxes	back)	30.09.2014
Value added tax (VAT)	1 782	29 192	(17 349)	(9 624)	4 001
Social contributions	(8 419)	(81 728)	24 821	57 201	(8 125)
Personnel income tax	(4 013)	(38 546)	-	38 702	(3 857)
Real estate tax	-	(1 243)	-	(1 243)	-
Nature resources tax	(175)	(257)	-	433	1
Corporate income tax	10 176	-	(10 176)	-	-
Risk duty	(15)	(154)	-	152	(17)
Total	(664)	(92 736)	(2 704)	88 107	(7 997)

Liabilities (12 622) (7 997)
4002

18. Off-balance sheet commitments

In accordance with provisions of the agreement credit line, the limit is EUR 142 287.18 and repayment shall be done at 21.09.2014. The interest rate 3.0% +3M Rigibor. The balance on 30.09.2014. is 0.00 EUR. The company existing credit facility was renewed and its limit is 100 00 EUR with maturity up to 22.09.2015. In order to secure potential claims, the Company has issued commercial pledge and has pledged its fixed assets, inventories and debtors in favour to the credit institution.

19. Number of employees

	2014	2013
Average number of employees for the reporting year	<u><u>46</u></u>	<u><u>47</u></u>

20. Financial risk management

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