

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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2014 (UNAUDITED)

**DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

Saldus, 2015

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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>) – Chancellor 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 Knipšis (<i>Mārtiņš Knipšis</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, 2014
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	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 – December 31, 2014
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 – December 31, 2014
Name and address of the Auditor	(<i>Translated from Latvian</i>) Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.22)

Management announcement

To Consolidated report of economic activity for 2014

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 2014 from economic activities profits is 275 171 EUR, whereby Net turnover is 51 961 461 EUR, which comprise profits per emitted share 0.71 EUR. 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 2015

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.

February 27, 2015

Jānis Bertrāns
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 2014, 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

	2014.12.31 EUR	2013.12.31 EUR
Net turnover	51 961 461	43 986 895
Production costs of the sold production	-50 005 884	-43 760 990
Gross profit	1 955 577	225 905
Selling costs	-78 983	-58 864
General administration costs	-415 058	-397 447
Other income from company's economic activity	216 080	503 746
Other expenditures from company's economic activity	-856 110	-571 163
Profit or loss from economic activity	821 506	-297 823
Other interest income and the like income	64 581	153 491
Other interest payments and the like payments	-589 875	-699 556
Profit or loss before extraordinary items and taxes	296 212	-843 888
Company's deferred income tax	0	603 211
Other taxes	-21 041	-20 144
Profit or (loss)	275 171	-260 821
Profit/loss on share	0.71	-0.67
Euros on share/EUR on share		
Profit or loss	275 171	-260 821
Other comprehensive income for the period	451 144	77 434
Total comprehensive income for the period	726 315	-183 387

The annex is an integral part of this financial statement

Board :

Jānis Bertrāns
 Chairman of board

Janis Mierkalns
 Member of board

Gatis Zommers
 Member of board

Consolidated balance sheet

ASSETS	2014.12.31	2013.12.31
	EUR	EUR
LONG-TERM INVESTMENTS		
Intangible investments		
Concessions, patents, licences, trademarks and the like items	36 701	4 155
Goodwill	600 051	392 035
TOTAL	636 752	396 190
Fixed assets		
Land, premises and buildings	6 589 440	6 712 746
Equipment and machinery	9 765 305	11 615 493
Other fixed assets	77 497	80 379
Unfinished constructions	2 887 489	154 423
TOTAL	19 319 731	18 563 041
Biological assets	906 217	931 921
Long-term financial investments		
Investment in associated companies	8 540	8 540
Deferred tax assets	341 249	341 249
TOTAL	349 789	349 789
TOTAL LONG-TERM INVESTMENTS	21 212 489	20 240 942
CURRENT ASSETS		
Stocks		
Raw materials, direct materials, auxiliary materials	2 823 030	2 241 820
Biological assets	555 511	493 174
Unfinished production	1 412 149	631 039
Finished production and goods for sale	1 400 781	1 091 503
Advance payments for goods	117 393	24 407
TOTAL	6 308 864	4 481 944
Noncurrent assets held for sale		
Fixed assets held for sale	306 289	76 289
Debtors		
Debts of buyers and customers	4 663 919	3 964 905
Other debtors	75 116	40 727
Expenditures of the next periods	49 625	299 927
TOTAL	4 788 660	4 305 559
Money and its equivalents	4 280	28 339
TOTAL CURRENT ASSETS	11 408 093	8 892 131
TOTAL ASSETS	32 620 582	29 133 073

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
 Chairman of board

Janis Mierkalns
 Member of board

Gatis Zommers
 Member of board

Consolidate balance sheet (continuation)

LIABILITIES	2014.12.31	2013.12.31
	EUR	EUR
Shareholders' equity		
Share capital	541 990	550 845
Increase of price of the issue of shares	2 827	2 827
Fluctuation of exchange rate	-38 601	-4 784
Reserves from revaluation of long-term investments	1 782 022	1 110 312
Other reserves	3 741 168	3 732 314
Retained earnings from the previous year	1 443 838	1 292 413
Retained earnings from the year of account	275 171	-260 821
Total shareholders' equity	7 748 415	6 423 106
Long-term liabilities		
Long-term loans from credit institutions	14 822 296	13 733 431
Other creditors	1 395 395	1 370 317
Accrued liabilities	244 479	222 149
Long-term part of incomes from next periods	1 566 885	2 031 921
TOTAL	18 029 055	17 357 818
Short-term liabilities		
Short-term loans from credit institutions	1 583 645	1 738 488
Debts to suppliers and contractors	4 429 026	2 803 050
Advance payments received from buyers	106 911	91 654
Taxes payable	94 074	126 953
Other creditors	164 361	105 130
Incomes from the next periods short-term part	465 095	486 874
TOTAL	6 843 112	5 352 149
Total liabilities	24 872 165	22 709 967
Total shareholders' equity and liabilities	32 620 582	29 133 073

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
 Chairman of board

Janis Mierkalns
 Member of board

Gatis Zommers
 Member of board

Consolidated cash flow statement

	2014	2013
	EUR	EUR
I. Cash flow from basic activity		
Profit (+) or loss (-) before extraordinary items and taxes:	296 212	-843 888
wear and tear of fixed assets and intangible investments (+)	2 457 049	2 035 540
elimination of fixed assets and intangible investments	0	6
revaluation of long-term investments	68 610	-35 743
revaluation of biological assets	-36 633	45 297
Accruals (except accruals for doubtful debts)	-8 855	66 282
profit (-) or loss (+) from fluctuations of exchange rate	0	73 442
Income from finansation recognition	-486 815	1 468 841
Interest expenditure	589 875	267 655
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	2 879 443	3 077 431
increase (+) or decrease (-) of debtors debt	-483 101	-2 378 884
increase (+) or decrease (-) of the reserves of accruals	-1 840 814	-886 680
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	1 668 874	-5 141 670
Gross cash flow from basic activity	2 224 402	-5 329 802
Expenditures to pay interest payments	-589 875	-266 638
Net cash flow from basic activity	1 634 527	-5 596 439
II. Cash flow from investments		
Income from selling fixed assets and intangible investments	181 467	89 641
Acquisition of fixed assets and intangible investments	-223 424	-3 375 039
Expenditures for advance payments for fixed assets and unfinished	-2 575 730	0
Net cash flow from investments	-2 617 687	-3 285 398
III. Cash flow from financing activities		
Recieved loans	2 097 693	10 517 288
Expenditures for paying back loans	-1 138 592	-1 631 298
Expenditures for redemption of asset that was hired	0	-10 551
Cash flow from financing activities	959 101	8 875 439
IV. Fluctuations of exchange rate	0	0
V. Net cash flow of the year of account increase (+), decrease (-)	-24 059	-6 399
VI. Money and its equivalents balance at the beginning of the year of account	28 339	34 738
VII. Money and its equivalents balance at the end of the year of account	4 280	28 339

Cash flow statement is prepared according to indirect method in accordance with SGS Nr.7.

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
 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
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2012	550 845	1 141 843	-5 474	2 827	3 732 314	-105 238	1 352 438	6 669 555
Fluctuation of exchange rate	0	0	-44 525	0	0	150 453	-60 025	45 903
Distribution of profit of the year 2012	0	0	45 215	0	0	1 247 198	-1 292 413	0
Investment revaluation reserve	0	-31 531	0	0	0	0	0	-31 531
Profit of the year of account	0	0	0	0	0	0	-260 821	-260 821
December 31, 2013	550 845	1 110 312	-4 784	2 827	3 732 314	1 292 413	-260 821	6 423 106
Fluctuation of exchange rate	0	0	-33 817	0	0	412 246	0	378 429
Distribution of profit of the year 2013	0	0	0	0	0	-260 821	260 821	0
Changes in share capital	-8 855	0	0	0	8 855	0	0	0
Investment revaluation reserve	0	671 710	0	0	0	0	0	671 710
Profit of the year of account	0	0	0	0	0	0	275 171	275 171
December 31, 2014	541 990	1 782 022	-38 601	2 827	3 741 168	1 443 838	275 171	7 748 415

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
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 2014 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 Euro (EUR)- 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.

Changes in accounting policy and disclosures

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:

Amendment to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendment has no impact on the Group’s financial position or performance, because the Group has no Other Comprehensive Income.

Amendment to IAS 19 Employee Benefits (revised 2011)

The amendment has no impact on the Group's financial position or performance, because the Group does not have material defined benefit obligations.

Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendment has no impact on the Group's financial position or performance, because the Group does not have netting arrangements.

IFRS 13 Fair Value Measurement

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The amendment affects presentation of disclosures only and has no impact on the Group's financial position or performance.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Interpretation has no impact on the Group's financial statements, as the Group is not involved in the mining activity.

Bookkeeping and accounting principles has not changed compared to the previous reporting period.

Use of calculations

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 Euro(EUR) except for the ООО «Салдус» and ООО «Деревообрабатывающий комбинат № 3» where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Euro in accordance with the official exchange rate, established by the European System of Central Banks on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Euro in accordance with the exchange rate, established by the European System of Central Banks 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 ООО «Салдус» and ООО «Деревообрабатывающий комбинат № 3» 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.

	2014.12.31	2013.12.31
	EUR	EUR
1 RUB	0.0144	0.0221
1 USD	0.8224	0.7327

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 includes 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.

In accordance with the accounting policies - land of forests are valued using the revaluation method. A plot shall be performed on a regular basis depending on changes in value. If the asset (the land of forests), the revalued value is not significantly different from its balance sheets value, they are revalued every five years by ordering evaluation to the certified forests assessor. In case of radical changes in the real estate market valuation may be ordered more frequently. Last evaluation is made on 31.12.2014. Records are prepared in accordance with SGS Nr.16 requirement.

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 biological 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 biological assets at 2014 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.

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 off 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

Company is a joint stock company. Company share capital is EUR 541 990. And consist of 387 136 public bearer shares. All shares are denominated and are dematerialised.

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	
	2014	2013	2014	2013	2014	2013	2014	2013
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	8 212 912	6 814 487	41 731 540	33 025 072	2 017 009	4 147 336	51 961 461	43 986 895
Production costs of the sold production	-7 978 789	-6 324 773	-39 948 553	-32 484 003	-2 078 542	-4 952 213	-50 005 884	-43 760 989
Selling costs	-22 700	-2 657	-50 795	-15 061	-5 487	-41 147	-78 982	-58 864
General administration costs	-18 800	-31 491	-50 621	-56 580	-345 637	-309 375	-415 058	-397 447
Other income/expenditures from company's economic activity	33 680	-5 114	-627 710	-126 456	-46 001	64 153	-640 031	-67 417
Profit or loss from economic activity	226 303	450 453	1 053 861	342 972	-458 658	-1 091 246	821 506	-297 821
Other interest income/payments and the like income	-7 385	-7 133	-93 873	4 482	-424 036	-543 416	-525 294	-546 067
Company's deferred income tax	0	0	0	0	0	603 211	0	603 211
Other taxes	0	0	-8 067	-8 082	-12 974	-12 062	-21 041	-20 144
Income from segments activities	33 400	-13 601	-309 836	-221 611	276 436	235 212	0	0
Profit or (loss)	252 318	429 719	642 085	117 761	-619 232	-808 301	275 171	-260 821
Segment assets	5 155 936	4 513 320	26 198 400	21 872 920	1 266 246	2 746 832	32 620 582	29 133 073
Segment liabilities	5 204 842	4 210 601	26 059 834	21 625 627	1 355 905	3 296 845	32 620 582	29 133 073

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.

	2014	2013
	EUR	EUR
Income from sales, int. Al.	48 821 547	41 352 673
Latvia	48 096 323	40 823 160
Other countries	725 224	529 513
Income from rendering of services, int. Al.	2 653 098	2 147 392
Latvia	2 641 711	2 121 932
Other countries	11 387	25 461
Financing of the EU structural funds	486 816	436 830
	51 961 461	43 937 075