

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF 2015 (UNAUDITED)

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

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 novads, 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 – June 30, 2015 |
| 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 | (<i>ООО - Общество с ограниченной ответственностью</i>) 1066027046337 October 9, 2006 |
| Address | Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А |
| The main areas of activities of the company | Woodworking, production of board lumber |
| Owner of the company | Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100% |
| Reporting year | January 1 – June 30, 2015 |
| 3. Name of the company | Saldus (<i>Салдус</i>) (100%) |
| Legal status of the company | Limited Liability Company |
| Registration number, date, place | (<i>ООО - Общество с ограниченной ответственностью</i>) 1056000426371 21. December 2005 |
| Address | Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А |
| The main areas of activities of the company | Purchase of lumber |
| Owner of the company | Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100% |
| Reporting year | January 1 – June 30, 2015 |
| Name and address of the Auditor | Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.22) |

Management announcement

To Report of economic activity for the 6 month of 2015

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 2015 first 6 months are 830 745 EUR at the net turnover of 21 067 623 EUR, which means loss on one share issued of 2.15 EUR.

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. Members of council have decided to leave the profit undistributed.

Forecasts for financial statements and operational plans of 2015

Management of the company continues work on internal restructuring of the company aimed at adjusting to existing market situation and improvement of economic situation and financial indicators of the company. Management policy is not based on wide ranging economic activities, rather than on development of economic activities in two interrelated areas, by increasing production volumes, increasing productivity of work.

Business and financial risk management policy

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

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

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

August 31, 2015

Board:

Jānis Bertrāns
Chancellor of the Board

Jānis Mierkalns
member of the Board

Gatis Zommers
member of the Board

Statement of Management Responsibility

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

The Management confirms that, in preparing this report for the period ending on 30 June 2015, 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.

August 31, 2015

Board:

Jānis Bertrāns
Chancellor of the Board

Jānis Mierkalns
member of the Board

Gatis Zommers
member of the Board

Profit or loss calculation

| | 30.06.2015 | 31.12.2014 |
|------------------------------------------------------------|-----------------|------------------|
| | EUR | EUR |
| Net turnover | 21 067 623 | 51 224 851 |
| Production costs of the sold production | -21 506 927 | -49 047 843 |
| Gross profit | -439 304 | 2 177 008 |
| Selling costs | -3 290 | -45 050 |
| General administration costs | -190 169 | -369 691 |
| Other income from company's economic activity | 133 866 | 152 755 |
| Other expenditures from company's economic activity | -169 529 | -629 331 |
| Profit or loss from economic activity | -668 426 | 1 285 691 |
| Other interest income and the like income | 24 112 | 39 781 |
| Other interest payments and the like payments | -174 839 | -566 909 |
| Profit or loss before extraordinary items and taxes | -819 153 | 758 563 |
| Company's deferred income tax | | -232 275 |
| Other taxes | -11 592 | -20 315 |
| Profit or (loss) | -830 745 | 505 973 |
| | | |
| Profit/loss on share | -2.15 | 1.31 |
| /EUR per share | | |

The annex is an integral part of this financial statement

August 31, 2015

Board:

Jānis Bertrāns
Chancellor of the Board

Jānis Mierkalns
member of the Board

Gatis Zommers
member of the Board

Balance sheet**ASSETS**

| | 30.06.2015 | 31.12.2014 |
|---------------------------------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| LONG-TERM INVESTMENTS | | |
| Intangible investments | | |
| Concessions, patents, licences, trademarks and the like items | 30 201 | 36 701 |
| TOTAL | 30 201 | 36 701 |
| Fixed assets | | |
| Land, premises and buildings | 5 788 374 | 5 963 855 |
| Equipment and machinery | 9 136 655 | 9 678 507 |
| Other fixed assets | 62 507 | 77 498 |
| Unfinished constructions | 3 311 397 | 2 596 177 |
| TOTAL | 18 298 933 | 18 316 037 |
| Biological assets | 906 217 | 906 217 |
| Long-term financial investments | | 0 |
| Participation in the capital of related companies | 1 009 149 | 1 009 149 |
| Investment in associated companies | 8 540 | 8 540 |
| Loans to the related companies | 979 164 | 969 555 |
| Deferred tax assets | 108 974 | 108 974 |
| TOTAL | 2 105 827 | 2 096 218 |
| TOTAL LONG-TERM INVESTMENTS | 21 341 178 | 21 355 173 |
| CURRENT ASSETS | | |
| Stocks | | |
| Raw materials, direct materials, auxiliary materials | 1 470 705 | 2 689 650 |
| Biological assets | 555 511 | 555 511 |
| Unfinished production | 1 247 807 | 1 678 795 |
| Finished production and goods for sale | 871 841 | 1 351 877 |
| Advance payments for goods | 80 989 | 108 535 |
| TOTAL | 4 226 853 | 6 384 368 |
| Noncurrent assets held for sale | | 0 |
| Fixed assets held for sale | 306 288 | 306 288 |
| Debtors | | 0 |
| Debts of buyers and customers | 4 597 108 | 4 618 803 |
| Debts of subsidiaries | 373 917 | 361 065 |
| Other debtors | 101 635 | 72 011 |
| Expenditures of the next periods | 68 184 | 49 112 |
| TOTAL | 5 140 844 | 5 100 991 |
| Money and its equivalents | 255 284 | 4 086 |
| TOTAL CURRENT ASSETS | 9 929 269 | 11 795 733 |
| TOTAL ASSETS | 31 270 447 | 33 150 906 |

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August 31, 2015

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Chancellor of the Board

Jānis Mierkalns
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Gatis Zommers
member of the Board

Balance sheet (continuation)**LIABILITIES**

| | 30.06.2015 | 31.12.2014 |
|----------------------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| Shareholders' equity | | |
| Share capital | 541 990 | 541 990 |
| Increase of price of the issue of shares | 2 828 | 2 828 |
| Reserves from revaluation of long-term investments | 1 600 057 | 1 600 057 |
| Other reserves | 3 741 168 | 3 741 168 |
| Retained earnings from the previous year | 2 772 876 | 2 266 903 |
| Retained earnings from the year of account | -830 745 | 505 973 |
| Total shareholders' equity | 7 828 174 | 8 658 919 |
| Accruals for holiday | 230 249 | 244 479 |
| TOTAL | 230 249 | 244 479 |
| Long-term liabilities | | |
| Long-term loans from credit institutions | 14 300 616 | 14 822 296 |
| Other creditors | 1 484 870 | 1 355 438 |
| Long-term part of incomes from next periods | 1 797 762 | 1 566 885 |
| TOTAL | 17 082 019 | 17 744 619 |
| Short-term liabilities | | |
| Short-term loans from credit institutions | 1 583 645 | 1 583 645 |
| Short-term part of financial lease | 0 | 25 551 |
| Debts to suppliers and contractors | 3 014 856 | 4 098 362 |
| Advance payments received from buyers | 123 657 | 107 650 |
| Taxes payable | 212 186 | 85 413 |
| Other creditors | 144 412 | 137 173 |
| Incomes from the next periods short-term part | 463 716 | 465 095 |
| TOTAL | 5 628 776 | 6 502 889 |
| Total liabilities | 23 212 024 | 24 247 508 |
| Total shareholders' equity and liabilities | 31 270 447 | 33 150 906 |

The annex is an integral part of this financial statement

August 31, 2015

Board:

Jānis Bertrāns
Chancellor of the Board

Jānis Mierkalns
member of the Board

Gatis Zommers
member of the Board

Cash flow statement

| | 2015 | 2014 |
|----------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| I. Cash flow from basic activity | | |
| Profit (+) or loss (-) before extraordinary items and taxes: | -819 153 | 758 563 |
| Wear and tear of fixed assets and intangible investments (+) | 1 171 529 | 2 320 114 |
| Elimination of fixed assets and intangible investments | 0 | 6 |
| Revaluation of long-term investments | 0 | 68 610 |
| Revaluation of biological assets | 0 | -234 041 |
| Accruals (except accruals for doubtful debts) | -230 249 | 22 330 |
| Interest income | -24 112 | -37 816 |
| Income from finansation recognition | 229 497 | -486 816 |
| Interest expenditure | 174 839 | 426 351 |
| Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities | 502 351 | 2 837 295 |
| increase (+) or decrease (-) of debtors debt | -25 350 | -470 389 |
| increase (+) or decrease (-) of the reserves of accruals | 2 157 515 | -2 385 578 |
| increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors | -729 059 | 2 033 998 |
| Gross cash flow from basic activity | 1 905 457 | 2 015 326 |
| Expenditures to pay interest payments | -174 839 | -424 333 |
| Net cash flow from basic activity | 1 730 618 | 1 590 993 |
| II. Cash flow from investments | | |
| Income from selling fixed assets and intangible investments | 0 | 181 468 |
| Acquisition of fixed assets and intangible investments | -432 705 | -215 044 |
| Expenditures for advance payments for fixed assets and unfinished | -715 220 | -2 575 730 |
| Loans issued | 0 | -180 027 |
| Net cash flow from investments | -1 147 925 | -2 789 333 |
| III. Cash flow from financing activities | | |
| Recieved loans | 506 824 | 2 827 817 |
| Expenditures for paying back loans | -838 319 | -1 653 645 |
| Cash flow from financing activities | -331 495 | 1 174 172 |
| IV. Fluctuations of exchange rate | 0 | 0 |
| V. Net cash flow of the year of account increase (+), decrease (-) | 251 198 | -24 168 |
| VI. Money and its equivalents balance at the beginning of the year of account | 4 086 | 28 254 |
| VII. Money and its equivalents balance at the end of the year of account | 255 284 | 4 086 |

Cash flow statement is prepared according to indirect method in accordance with rules of The Cabinet of Ministers no. 481.

The annex is an integral part of this financial statement

August 31, 2015

Board:

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Chancellor of the Board

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Statement on the changes in own capital

The annex is an integral part of this financial statement

| | Share capital | Share premium | Reserves from revaluation of long-term investments | Other reserves | Previous years retained earnings | Retained profit/loss of the year of account | Total own capital |
|--------------------------------------------|----------------|---------------|----------------------------------------------------|------------------|----------------------------------|---------------------------------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| December 31, 2013 | 550 845 | 2 827 | 1 110 312 | 3 732 314 | 2 161 133 | 105 762 | 7 663 193 |
| Adjustments for the transition to the euro | | 1 | | -1 | 8 | | 8 |
| Distribution of profit of the year 2013 | 0 | 0 | 0 | 0 | 105 762 | -105 762 | 0 |
| Investment revaluation reserve | 0 | 0 | 489 745 | 0 | 0 | 0 | 489 745 |
| Change in share capital | -8 855 | | | 8 855 | | | |
| Profit of the year of account | 0 | 0 | 0 | 0 | 0 | 505 973 | 505 973 |
| December 31, 2014 | 541 990 | 2 828 | 1 600 057 | 3 741 168 | 2 266 903 | 505 973 | 8 658 919 |
| Distribution of profit of the year 2014 | | 0 | 0 | 0 | 505 973 | -505 973 | 0 |
| Profit of the year of account | | | | | | -830 745 | -830 745 |
| June 30. 2015 year | 541 990 | 2 828 | 1 600 057 | 3 741 168 | 2 772 876 | -830 745 | 7 828 174 |

August 31, 2015

Board:

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Chancellor of the Board

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member of the 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 on Accounting and Law on Annual Reports of the Republic of Latvia.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is euro (EUR, the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2015 through 30 June 2015.

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

Currency unit and Foreign currency translation

In accordance with the requirements of the “Law on the Procedure for Introduction of Euro” all amounts in these financial statements are expressed in the Latvian national currency – euro (EUR). Starting from 1 January 2014 the foreign currency transactions have been translated into euro applying the rate determined by the conversation procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank’s website. All monetary assets and liabilities denominated in foreign currencies have been translated into lats at the official exchange rate established by the Bank of Latvia at the last day of the calendar year – 31 December 2013. On the Euro implementation day 1 January 2014 all monetary assets and liabilities were translated into euro in accordance with the exchange rate set by the European Union Council, considering the rounding principles determined by clause 6 of the “Law on the Procedure for introduction of Euro”. On the last day of the reporting year all monetary assets and liabilities were translated into euro in accordance with the rates published on the European Central Bank’s website

| | 30.06.2015 | 31.12.2014 |
|-------|------------|------------|
| | EUR | EUR |
| 1 RUB | 0.0162 | 0.0144 |
| 1 USD | 0.8982 | 0.8224 |

Intangible investment

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

Intangible assets are accounted for their cost value which is depreciated for the useful life of assets on a straight line basis. Should any events or conditions indicate that accounting value of intangible assets be non-recoverable, the value of respective intangible assets is revalued in order to establish decrease of accounting value of intangible assets. Losses resulting from decrease of value are accounted when the accounting value of intangible assets increases the recoverable amount.

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

Depreciation is calculated for the whole period of useful life by a straight 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 value. As possible certified valuers have performed revaluation of the property, plant and equipment by applying the depreciated replacement cost model.

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.

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 29.04.2014.

Biological assets

In 2008 the company management decided to change accountancy policies for forest stands, complying with IAS 41 Agriculture. According to the new accountancy policy the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2015 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 2015. 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.

Cash and cash equivalents

Cash and cash equivalents comprise balances of current account with banks and other highly liquid investments with original maturities up to 90 days.

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.

Property revaluation surplus

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease. The revaluation surplus is included in other comprehensive income and accrued amount is reflected in equity under the heading "Investment revaluation reserve".

Deferred income

Government grants related to assets, including non-monetary grants, are accounted for at fair value, presented as deferred income in the statement of financial position, which are recognised as income from the different exercises on a systematic and rational, over the life of the related assets.

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.

Interest

Interest is recognised according to savings method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Income from 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 EUR 541 990. And consist of 387 136 public bearer shares. All shares are denominated and are dematerialised registered shares.

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 procesing | | Other | | Total | |
|------------------------------------------------------------|----------------|----------------|------------------|------------------|-----------------|-------------------|-----------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Net turnover | 1 625 806 | 7 487 688 | 18 200 721 | 41 643 003 | 1 241 096 | 2 094 159 | 21 067 623 | 51 224 850 |
| Production costs of the sold production | -1 547 225 | -7 289 354 | -18 489 305 | -39 667 575 | -1 470 397 | -2 090 915 | -21 506 927 | -49 047 844 |
| Selling costs | -2 524 | -5 123 | -598 | -34 441 | -168 | -5 486 | -3 290 | -45 050 |
| General administration costs | -3 898 | -7 099 | -8 574 | -16 955 | -177 697 | -345 636 | -190 169 | -369 690 |
| Other income/expenditures from company's economic activity | 34 726 | 36 579 | -72 755 | -149 505 | 2 366 | -363 649 | -35 663 | -476 575 |
| Profit or loss from economic activity | 106 885 | 222 691 | -370 511 | 1 774 527 | -404 800 | -711 527 | -668 426 | 1 285 691 |
| Other interest income/payments and the like income | -5 170 | -7 482 | -41 342 | -191 428 | -104 215 | -328 218 | -150 727 | -527 128 |
| Company's deferred income tax | 0 | 0 | 0 | 0 | 0 | -232 275 | 0 | -232 275 |
| Other taxes | 0 | 0 | -4 038 | -8 067 | -7 554 | -12 248 | -11 592 | -20 315 |
| Income from segments activities | -62 754 | 39 733 | -57 458 | -309 836 | 120 212 | 270 103 | 0 | 0 |
| Profit or (loss) | 38 961 | 254 942 | -473 349 | 1 265 196 | -396 357 | -1 014 165 | -830 745 | 505 973 |
| Segment assets | 2 413 166 | 4 845 766 | 27 015 135 | 26 949 874 | 1 842 145 | 1 355 266 | 31 270 447 | 33 150 906 |
| Segment liabilities | 2 249 620 | 4 926 795 | 26 882 912 | 26 810 884 | 2 137 915 | 1 413 227 | 31 270 447 | 33 150 906 |

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.

| | 2015 | 2014 |
|----------------------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| Income from sales, int. Al. | 20 101 345 | 48 096 323 |
| Latvia | 20 101 345 | 48 096 323 |
| Other countries | 0 | 0 |
| Income from rendering of services, int. Al. | 734 420 | 2 641 712 |
| Latvia | 734 420 | 2 121 932 |
| Financing of the EU structural funds | 231 858 | 486 816 |
| | 21 067 623 | 51 224 851 |