

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2012

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

AND INDEPENDENT AUDITORS' STATEMENT

Saldus, 2013

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Rīga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Merkals (<i>Jānis Mierkals</i>) – member of the Board Gatis Zommers (<i>Gatis Zommers</i>) – member of the Board
Members of the Council: name, surname, position	Uldis Mierkals (<i>Uldis Mierkals</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Maris Elleris (<i>Mārija Elleris</i>) – member of the Council Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council Gunvaldis Vēsmiņš – 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, 2012
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2012
3. Name of the company	Saldus (<i>Салдус</i>) (100%)
Legal status of the company	Limited Liability Company (ООО - Общество с ограниченной ответственностью)
Registration number, date, place	1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2012
Name and address of the Auditor	Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.) License of Commercial Company No.127

Management announcement

To Report of economic activity for the 2012

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.

Profit of A/s „Saldus mežrūpniecība” for the year 2012 are 1 084 693 LVL at the net turnover of 27 091 595 LVL, which means profit on one share issued of 2.80 LVL.

The financial report is prepared on the base of information that is at share company board’s disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company. There is true information included in the announcement. Members of council have decided to leave the profit undistributed.

Forecasts for financial statements and operational plans of 2013

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.

April 30, 2013

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 31 December 2012, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

Profit or loss calculation

	Note	31.12.2012 LVL	31.12.2011 LVL	31.12.2012 EUR	31.12.2011 EUR
Net turnover	4	27 091 595	25 900 941	38 547 867	36 853 719
Production costs of the sold production	5	-24 608 037	-24 191 378	-35 014 082	-34 421 230
Gross profit		2 483 558	1 709 563	3 533 785	2 432 489
Selling costs	6	-497 078	-726 954	-707 278	-1 034 362
General administration costs	7	-221 238	-213 164	-314 793	-303 305
Other income from company's economic activity	8	167 362	331 861	238 135	472 196
Other expenditures from company's economic activity	8	-512 464	-458 554	-729 171	-652 464
Profit or loss from economic activity		1 420 140	642 752	2 020 677	914 554
Other interest income and the like income	9	31 785	28 103	45 226	39 987
Other interest payments and the like payments	9	-145 502	-236 117	-207 031	-335 964
Profit or loss before extraordinary items and taxes		1 306 423	434 738	1 858 872	618 576
Company's deferred income tax	10	-209 138	113 877	-297 577	162 032
Other taxes	11	-12 592	-13 659	-17 917	-19 435
Profit or (loss)		1 084 693	534 956	1 543 379	761 174
Profit/loss on share		2,80	1,38	3,99	1,97
cents per share/EUR per share					

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
 Chancellor of the Board

Jānis Mierkalns
 member of the Board

Gatis Zommers
 member of the Board

Balance sheet

ASSETS		Note	31.12.2012	31.12.2011	31.12.2012	31.12.2011
LONG-TERM INVESTMENTS			LVL	LVL	EUR	EUR
Intangible investments						
	Concessions, patents, licences, trademarks and the like items		3 631	10 114	5 166	14 391
	TOTAL	12	3 631	10 114	5 166	14 391
Fixed assets						
	Land, premises and buildings		3 378 883	3 506 275	4 807 717	4 988 980
	Equipment and machinery		7 021 772	3 125 983	9 991 081	4 447 873
	Other fixed assets		62 084	51 232	88 338	72 897
	Unfinished constructions		912 400	88 109	1 298 229	125 368
	Advance payments for fixed assets		46 025	3 335 699	65 488	4 746 272
	TOTAL	13	11 421 164	10 107 298	16 250 853	14 381 389
Biological assets						
			719 301	677 492	1 023 473	963 984
Long-term financial investments						
	Participation in the capital of related companies	14	709 234	415 142	1 009 149	590 694
	Loans to the related companies	15	632 020	832 442	899 283	1 184 458
	Atliktā nodokļa aktīvs		0	25 030	0	35 614
	TOTAL		1 341 254	1 272 614	1 908 433	1 810 767
TOTAL LONG-TERM INVESTMENTS			13 485 350	12 067 518	19 187 925	17 170 531
CURRENT ASSETS						
Stocks						
	Raw materials, direct materials, auxiliary materials		39 071	13 858	55 593	19 718
	Biological assets		251 989	399 707	358 548	568 732
	Unfinished production		1 545 014	1 248 415	2 198 357	1 776 335
	Finished production and goods for sale		390 969	566 134	556 299	805 536
	Advance payments for goods		17 153	17 153	24 407	24 407
	TOATL	16	2 244 196	2 245 267	3 193 204	3 194 727
Noncurrent assets held for sale						
	Fixed assets held for sale		62 203	89 654	88 507	127 566
Debtors						
	Debts of buyers and customers	17	933 164	227 536	1 327 773	323 755
	Debts of subsidiaries	17	266 003	240 056	378 488	341 569
	Other debtors	18	103 014	69 044	146 576	98 241
	Expenditures of the next periods	19	21 413	33 239	30 468	47 295
	TOTAL		1 323 594	569 875	1 883 305	810 859
Money and its equivalents						
		20	10 433	4 531	14 845	6 447
TOTAL CURRENT ASSETS			3 640 426	2 909 327	5 179 860	4 139 599
TOTAL ASSETS			17 125 777	14 976 845	24 367 786	21 310 131

The annex is an integral part of this financial statement.

Board:

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 Chancellor of the Board

Jānis Mierkalns
 member of the Board

Gatis Zommers
 member of the Board

Balance sheet (continuation)

		31.12.2012	31.12.2011	31.12.2011	31.12.2011
	Note	LVL	LVL	EUR	EUR
Shareholders'equity					
Share capital	21	387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	802 492	1 141 843	1 141 843
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained earnings from the previous year		434 160	-100 796	617 754	-143 420
Retained earnings from the year of account		1 084 693	534 956	1 543 379	761 174
Total shareholders'equity		5 333 553	4 248 860	7 588 962	6 045 583
Accruals for holiday	27	109 544	86 967	155 867	123 743
TOTAL		109 544	86 967	155 867	123 743
Long-term liabilities					
Long-term loans from credit institutions	22	3 506 035	3 846 226	4 988 638	5 472 687
Long-term part of financial lease liabilities	23	0	7 415	0	10 551
Other creditors		4 025 359	0	5 727 570	0
Deferred company's income tax		184 108	0	261 962	0
Long-term part of incomes from next periods	29	395 725	764 561	563 066	1 087 872
TOTAL		8 111 227	4 618 202	11 541 236	6 571 109
Short-term liabilities					
Short-term loans from credit institutions	22	912 099	130 370	1 297 800	185 500
Short-term part of financial lease	23	7 415	130 786	10 551	186 092
Debts to suppliers and contractors	24	1 999 376	4 408 474	2 844 856	6 272 693
Accrued liabilities	28	91 430	43 393	130 093	61 743
Taxes payable	25	142 547	137 749	202 826	195 999
Other creditors	26	76 399	990 000	108 706	1 408 643
Incomes from the next periods short-term part	29	342 187	182 044	486 888	259 025
TOTAL		3 571 453	6 022 816	5 081 720	8 569 695
Total liabilities		11 682 680	10 641 018	16 622 956	15 140 805
Total shareholders'equity and liabilities		17 125 777	14 976 845	24 367 786	21 310 131

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
 Chancellor of the Board

Jānis Mierkalns
 member of the Board

Gatis Zommers
 member of the Board

Cash flow statement

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
I. Cash flow from basic activity				
Profit (+) or loss (-) before extraordinary items and taxes:	1 306 423	434 738	1 858 872	618 576
wear and tear of fixed assets and intangible investments (+)	1 047 857	672 256	1 490 966	956 534
elimination of fixed assets and intangible investments	29	-95 104	41	-135 321
Income from biological assets	-63 130	0	-89 826	0
revaluation of biological assets	-233 234	-103 070	-331 862	-146 655
Accruals (except accruals for doubtful debts)	22 577	-32 560	32 124	-46 329
profit (-) or loss (+) from fluctuations of exchange rate	-7 474	-27 635	-10 635	-39 321
Interest income	-23 248	-25 750	-33 079	-36 639
Income from finansation recognition	-208 693	-91 925	-296 943	-130 797
Interest expenditure	124 055	124 054	176 514	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	1 965 162	855 004	2 796 173	1 216 561
increase (+) or decrease (-) of debtors debt	-726 517	169 100	-1 033 741	240 608
increase (+) or decrease (-) of the reserves of accruals	-119 196	1 389 120	-169 601	1 976 540
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	738 948	1 004 486	1 051 428	1 429 255
Gross cash flow from basic activity	1 858 397	3 417 710	2 644 260	4 862 963
Expenditures to pay interest payments	-124 055	-123351	-176 514	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-15774	0	-22 444
Net cash flow from basic activity	1 734 342	3278585	2 467 746	4 665 006
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	402 273	15112	572 383	21 502
Acquisition of fixed assets and intangible investments	-1 241 169	-3315848	-1 766 024	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	-1 114 100	-1219530	-1 585 221	-1 735 235
Loans issued	-86 196	-73319	-122 646	-104 324
Income from loans repaymens				
Net cash flow from investments	-2 039 192	-4593585	-2 901 509	-6 536 083
III. Cash flow from financing activities				
Recieved loans	571 908	1043466	813 752	1 484 718
Recieved subsidies, donations or benefactions	0	481896	0	685 676
Expenditures for paying back loans	-130 370	-130370	-185 500	-185 500
Expenditures for redemption of asset that was hired	-130 786	-84049	-186 092	-119 591
Cash flow from financing activities	310 752	1310943	442 160	1 865 304
IV. Fluctuations of exchange rate	0	52	0	74
V. Net cash flow of the year of account increase (+), decrease (-)	5 902	-4 005	8 397	-5 699
VI. Money and its equivalents balance at the beginning of the year of account	4 531	8 536	6 447	12 146
VII. Money and its equivalents balance at the end of the year of account	10 433	4 531	14 845	6 447

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chancellor of the Board

Jānis Mierkalns
member of the Board

Gatis Zommers
member of the Board

Statement on the changes in own capital

	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
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2010	387 136	1 987	802 492	2 623 085	61 949	-162 745	3 713 904
Distribution of profit of the year 2010	0	0	0	0	-162 745	162 745	0
Profit of the year of account	0	0	0	0	0	534 956	534 956
December 31, 2011	387 136	1 987	802 492	2 623 085	-100 796	534 956	4 248 860
Distribution of profit of the year 2011	0	0	0	0	534 956	-534 956	0
Profit of the year of account	0	0	0	0	0	1 084 693	1 084 693
December 31, 2012	387 136	1 987	802 492	2 623 085	434 160	1 084 693	5 333 553
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2010	550 845	2 827	1 141 843	3 732 314	88 145	-231 565	5 284 409
Distribution of profit of the year 2010	0	0	0	0	-231 565	231 565	0
Profit of the year of account	0	0	0	0	0	761 174	761 174
December 31, 2011	550 845	2 827	1 141 843	3 732 314	-143 420	761 174	6 045 583
Distribution of profit of the year 2011	0	0	0	0	761 174	-761 174	0
Profit of the year of account	0	0	0	0	0	1 543 379	1 543 379
December 31, 2012	550 845	2 827	1 141 843	3 732 314	617 754	1 543 379	7 588 962

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns
Chancellor of the Board

Jānis Mierkalns
member of the Board

Gatis Zommers
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 of the Republic of Latvia on Annual Reports applicable in the reporting year.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2012 through 31 December 2012.

Use of calculations (continuation)

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

Decrease of the value of assets

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

Foreign currency translation

The functional and presentation currency of the Company is Latvian lats (LVL). Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Currency exchange rates established by the Bank of Latvia:

	31.12.2012	31.12.2011
	Ls	Ls
1 RUB	0.0174	0.0170
1 USD	0.531	0.544
1 EUR	0.702804	0.702804

Intangible investment

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

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

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

Depreciation is calculated for the whole period of useful life by a stright line method. Costs associated with maintenance of software are accounted as costs in the income statement. See Paragraph 12 of the Annex.

Property, plant and equipment

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

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

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

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

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

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

Movement of company property, plant and equipment is shown in the Paragraph 13 of the Annex.

Biological assets

In 2008 the company management decided to change accountancy politics for forest stands, complying with IAS 41 Agriculture. According to the new accountancy politic the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2012 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 2012. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

Reserves

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less. The cash flow statement has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

Accruals

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

Credits and loans

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

Lease

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income as interest payments.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term and are accounted in the income statement for the whole lease period according to straight-line basis.

More detailed information on this finance lease is available in Note 23.

Income recognition

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

Rendering of services

Company income is mainly derived from rendering of transport services, and timber processing related services. Income from provision of services is accounted according to the volume of respective service rendered. Revenue is recognised in the period when the services are rendered.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is when the Company has delivered products to the buyer and the buyer has accepted products according to the contract provisions and satisfactory evidence is acquired as to receipt of debtors receivables.

Interests

Interest is recognised according to savings method.

Dividends

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

Income from lease

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

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% set in legislative acts of the Republic of Latvia on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on the Company's non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as temporary difference in interest or securities in excess of set limits and tax losses carried forward for the subsequent five years. Asset of deferred corporate income tax is only reflected in the financial statements if sufficient evidence is acquired as to the planned recoverability of it.

Associated persons

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

Possible liabilities and assets

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

Share capital

Company is a joint stock company. Company share capital is dividend in common shares. All shares are denominated and are dematerialised. More detailed information on spread of share capital is given in the Note 21.

Accruals and deferred liabilities

Accrual and deferred liabilities are accounted for cost and expense to be recognised at the moment of occurrence.

Events after the end of the year of account

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

3. Segments of the Holding activities

	Logging		Timber processing		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	6 376 341	6 733 596	18 709 904	18 318 723	2 005 350	848 622	27 091 595	25 900 941
Production costs of the sold production	-5 051 323	-6 000 254	-17 488 009	-17 623 971	-2 068 705	-567 153	-24 608 037	-24 191 378
Selling costs	-457 080	-649 068	-2 317	-11 717	-37 681	-66 169	-497 078	-726 954
General administration costs	-4 515	-5 922	-13 321	-12 781	-203 402	-194 461	-221 238	-213 164
Other income/expenditures from company's economic activity	-8 812	-19 099	-112 634	-111 053	-223 656	3 459	-345 102	-126 693
Profit or loss from economic activity	854 611	59 253	1 093 623	559 201	-528 094	24 298	1 420 140	642 752
Other intersets income/payments and the like income	-5 565	-6 581	-18 074	-19 592	-90 078	-181 841	-113 717	-208 014
Company's deferred income tax	0	0	0	0	-209 138	113 877	-209 138	113 877
Other taxes	0	0	0	-5 019	-12 592	-8 640	-12 592	-13 659
Income from segments activities	-85 045	0	-55 211	0	140 256	0	0	0
Profit or (loss)	764 001	52 672	1 020 338	534 590	-699 646	-52 306	1 084 693	534 956
Segment assets	4 030 763	4 034 535	11 827 345	10 459 905	1 267 669	448 282	17 125 777	14 942 722
Segment liabilities	3 515 430	3 137 972	12 170 647	11 057 614	1 439 700	747 136	17 125 777	14 942 722

	Logging		Timber processing		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	9 072 716	9 581 044	26 621 795	26 065 195	2 853 356	1 207 480	38 547 867	36 853 719
Production costs of the sold production	-7 187 385	-8 537 592	-24 883 195	-25 076 652	-2 943 502	-806 986	-35 014 082	-34 421 230
Selling costs	-650 366	-923 541	-3 297	-16 672	-53 615	-94 150	-707 278	-1 034 362
General administration costs	-6 424	-8 426	-18 954	-18 186	-289 415	-276 693	-314 793	-303 305
Other income/expenditures from company's economic activity	-12 538	-27 175	-160 264	-158 014	-318 234	4 922	-491 036	-180 268
Profit or loss from economic activity	1 216 002	84 309	1 556 085	795 671	-751 410	34 573	2 020 677	914 554
Other intersets income/payments and the like income	-7 918	-9 364	-25 717	-27 877	-128 169	-258 736	-161 805	-295 977
Company's deferred income tax	0	0	0	0	-297 577	162 032	-297 577	162 032
Other taxes	0	0	0	-7 141	-17 917	-12 294	-17 917	-19 435
Income from segments activities	-121 008	0	-78 558	0	199 566	0	0	0
Profit or (loss)	1 087 075	74 946	1 451 810	760 653	-995 507	-74 425	1 543 379	761 174

Segment assets	5 735 259	5 740 626	16 828 796	14 883 105	1 803 731	637 848	24 367 785	21 261 578
Segment liabilities	5 002 006	4 464 931	17 317 271	15 733 568	2 048 508	1 063 079	24 367 785	21 261 578

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.

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Income from sales, int. AI.	25 309 169	24 437 664	36 011 703	34 771 663
Latvia	25 309 169	24 437 664	36 011 703	34 771 663
Income from rendering of services, int. AI.	1 573 732	1 371 308	2 239 219	1 951 195
Latvia	1 573 732	1 371 308	2 239 219	1 951 195
Financing of the EU structural funds	208 694	91 969	296 945	130 860
	27 091 595	25 900 941	38 547 867	36 853 719

5. Production cost of products sold

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
<u>Production cost of products sold</u>				
Salary of employees	1 274 675	1 243 708	1 813 699	1 769 637
Social insurance costs	305 638	297 496	434 884	423 299
Reserve for vacation pays	23 249	-34 728	33 080	-49 413
Doubtful debtors reserve	0	21 809	0	31 031
Depreciation of property, plant and equipment	996 729	623 786	1 418 218	887 568
Costs of purchase of materials	466 637	455 707	663 965	648 413
Stem fee (purchase of cutting rights)	3 528 019	3 271 910	5 019 919	4 655 509
Purchase costs of sawn timber	14 764 374	14 671 457	21 007 812	20 875 603
Purchase costs of products in retail trade	0	69 366	0	98 699
Electricity and heating costs	399 438	286 246	568 349	407 291
Production related contractors expenses	1 674 279	1 742 979	2 382 284	2 480 036
Production equipment maintenance costs	1 170 662	1 495 974	1 665 702	2 128 579

Other services received	4 337	45 668	6 171	64 980
	24 608 037	24 191 378	35 014 082	34 421 230

6. Cost of sale

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Adevertisement costs, market research, marketing	411	15 761	585	22 426
Transportation costs of goods	460 859	662 147	655 743	942 150
Other production costs	35 808	49 046	50 950	69 786
	497 078	726 954	707 278	1 034 362

7. General and administration costs

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Salaries to employees	33 059	66 711	47 039	94 921
Social insurance costs	7 964	16 071	11 332	22 867
Unused vacation pay reserve	-672	2 168	-956	3 084
Maintenance of administration capital assets	51 128	48 470	72 749	68 967
Expense associated with maintenance of administration	23 798	26 319	33 862	37 449
Office maintenance costs	64 741	39 711	92 118	56 504
Annual report expenses	3 300	2 600	4 695	3 699
Banking expenses	37 920	11 114	53 955	15 814
	221 238	213 164	314 793	303 304

8. Other operating income and expense

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
<u>Other income</u>				
Income from services	57 605	4 413	81 965	6 279
Net income from sale of long term investment	0	115 230	0	163 958
Net incomes from sales of inventory	17 027	99 005	24 227	140 871
Income from lease of fixed assets	77 336	93 726	110 039	133 360
Financing of the EU structural funds and LAD	15 394	19 487	21 904	27 728
	167 362	331 861	238 135	472 196
<u>Other expense</u>				
Net loss from exclusion of long term investment	0	0	0	0
Net loss from revaluation of long term investment	0	0	0	0
Dues paid for land plots used in production	23 726	31 416	33 759	44 701
Security costs	289 587	265 455	412 045	377 708
Employees training costs in EU projects	62	24 570	88	34 960
Other expense for provision of economic activities	199 089	137 113	283 278	195 094
	512 464	458 554	729 171	652 464

9. Financial income/ (expense), net

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Income				
Income from currency exchange	7 671	0	10 915	0
Income from interest calculated	23 248	25 750	33 079	36 639
Other income	866	2 353	1 232	3 348
	31 785	28 103	45 226	39 987
Expense				
Currency exchange expense	2 043	87 535	2 907	124 551
Donations	0	300	0	427
Fines paid	14 851	6 137	21 131	8 732
Other expense	18 604	18 090	26 471	25 740
Loan interest calculated	108 990	120 278	155 079	171 140
Financial lease interest recognised	1 014	3 777	1 443	5 374
	145 502	236 117	207 031	335 964

10. Deferred corporate income tax:

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Liabilities of the deferred company income tax				
The residual value of capital assets in accounting (excluding the value of land, advance payments and unfinished construction)	-9 273 539	-5 559 340	-13 195 057	-7 910 228
Residual value of capital assets needed for taxes	6 163 544	4 484 996	8 769 933	6 381 574
Tax losses not covered	1 773 057	1 154 243	2 522 833	1 642 340
Accruals for holidays	109 544	86 987	155 867	123 771
Temporary difference	1 227 394	166 886	1 746 335	237 457
Liabilities of deferred tax	-184 108	25 030	-261 962	35 614
Assets of deferred tax	-209 138	113 877	-297 577	162 032

A rate of 15% is applied to calculations of deferred tax.

11. Other taxes

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Real estate tax	12 592	13 659	17 917	19 435
	12 592	13 659	17 917	19 435

12. Intangible investment

Software

		LVL
As at 31.12.2011.		54 893
2012	Cost	
	Impairment	
As at 31.12.2012.		54 893
Amortisation accrued 31.12.2011.		44 780
2012	Amortisation	6 482
	Impairment	
Amortisation accrued 31.12.2012.		51 262
As at 31.12.2011.		10 114
As at 31.12.2012.		3 631
Amortisation rate (by linear method)		5 year

		EUR
As at 31.12.2011.		78 106
2012	Cost	0
	Impairment	0
As at 31.12.2012.		78 106
Amortisation accrued 31.12.2011.		63 716
2012	Amortisation	9 225
	Impairment	0
Amortisation accrued 31.12.2012.		72 940
As at 31.12.2011.		14 390
As at 31.12.2012.		5 166
Amortisation rate (by linear method)		5 year

13. Capital assets

	Land, buildings and systems	Equipment and machinery	Other fixed assets	Unfinished fixed assets	Advance payments for fixed assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Accounting value 31.12.2011.	4 264 589	5 510 974	114 053	88 109	3 335 699	13 313 424
2012 Purchase	68 575	1 144 660	27 934	828 272	285 826	2 355 268
2012 Liquidity		-184	-1 661			-1 846
2012 Reconstruction		3 579 481		-3 981	-3 575 500	0
2012 Reshuffles						0
Accounting value 31.12.2012	4 333 164	10 234 931	140 326	912 400	46 024	15 666 846
Accrued wear and tear 31.12.2011.	758 313	2 384 991	62 822	0	0	3 206 126
2012 Wear and tear	195 967	828 353	17 053			1 041 372
2012 Wear and tear of liquid assets		-184	-1 633			-1 817
2012 Reshuffles						0
Accrued wear and tear 31.12.2012	954 281	3 213 160	78 243	0	0	4 245 682
Residual value 31.12.2011.	3 506 275	3 125 983	51 232	88 109	3 335 699	10 107 298
Residual value 31.12.2012	3 378 883	7 021 772	62 084	912 400	46 025	11 421 164

Rate of wear and tear (linear method)	5-20 year EUR	4-10 year EUR	3-10 year EUR	EUR	EUR	EUR
Accounting value 31.12.2011.	6 067 963	7 841 410	162 283	125 367	4 746 272	18 943 296
2012 Purchase	97 574	1 628 705	39 747	1 178 525	406 693	3 351 244
2012 Liquidity	0	-262	-2 364	0	0	-2 626
2012 Reconstruction	0	5 093 142	0	-5 664	-5 087 478	0
2012 Reshuffles	0	0	0	0	0	0
Accounting value 31.12.2012	6 165 536	14 562 995	199 666	1 298 228	65 487	22 291 913
Accrued wear and tear 31.12.2011.	1 078 983	3 393 537	89 387	0	0	4 561 907
2012 Wear and tear	278 836	1 178 641	24 265	0	0	1 481 740
2012 Wear and tear of liquid assets	0	-262	-2 323	0	0	-2 585
2012 Reshuffles	0	0	0	0	0	0
Accrued wear and tear 31.12.2012	1 357 819	4 571 916	111 329	0	0	6 041 061
Residual value 31.12.2011.	4 988 980	4 447 874	72 896	125 367	4 746 272	14 381 389
Residual value 31.12.2012	4 807 717	9 991 081	88 338	1 298 229	65 488	16 250 853

Rate of wear and tear (linear method)

5-20 year 4-10 year 3-10 year

Cadastral value has been set for buildings owned by the company in amount to 439 445 Ls (625 274 EUR).

Cadastral value of lands at the balance date amounts to 395 764 Ls (563 121 EUR).

14. Investment in related companies

	Shares owned %	Investment value	Depreciation of value	Accounting value of investment as at 31.12.2012
	LVL	LVL	LVL	LVL
SIA Pakuļu sporta bāze	100	146 000	-109 166	36 834
ООО Салдус	100	5 190	0	5 190
ООО Деревообрабатывающий комбинат № 3	100	373 118	294 090	667 209
total long term investment		524 308	184 926	709 234
	EUR	EUR	EUR	EUR
SIA Pakuļu sporta bāze	100	207 739	-155 329	52 410
ООО Салдус	100	7 385	0	7 385
ООО Деревообрабатывающий комбинат № 3	100	530 899	418 454	949 353
total loans to related companies:		746 023	263 125	1 009 149

15. Loans in related companies

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
SIA Pakuļu sporta bāze	144 160	129 580	205 121	184 376
ООО «Салдус»	19 401	18 955	27 605	26 971
ООО «Деревообрабатывающий комбинат № 3»	468 459	683 907	666 557	973 112
total loans to related companies:	632 020	832 442	899 283	1 184 458

	LVL	EUR
Outstanding loan amount as at 31.12.2011	832 442	1 184 458
Accounting value as at 31.12.2011	832 442	1 184 458
Amounts lendred in 2012 (+)	86 194	122 643
Exchange rate fluctuations change	7 474	10 635
Changes caused by other transactions 2012 (+/-)	-294 091	-418 454
Outstanding loan amount as at 31.12.2012	632 020	899 283

Shareholder's equity of subsidiary enterprise at 31.12.2012- 158 780 LVL (225 924 EUR).

Subsidiary enterprise loss of the account year – 132 795 LVL (188 950 EUR).

16. Inventories

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Materials, spare parts, inventory	39 071	13 858	55 593	19 718
Biological assets	251 989	399 707	358 548	568 732
Unfinished goods (round timber in forest and in mill)	1 174 068	1 005 523	1 670 548	1 430 730
Timber in production	370 946	242 892	527 809	345 604
Total unfinished goods:	1 545 014	1 248 415	2 198 357	1 776 335
Ready sawn materials products	390 969	566 134	556 299	805 536
Total ready products and goods for sale	390 969	566 134	556 299	805 536
Advance payments for goods	17 153	17 153	24 407	24 407

No non-marketable stock was recorded as per inventory performed at 31.12.2012.

17. Trade receivables

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Accounting value of trade receivables	1 058 428	373 637	1 506 007	531 638
Doubtful debt reserve (-)	125 263	146 101	178 234	207 883
Accounting value	933 164	227 536	1 327 773	323 755
Debts of associated companies	266 003	240 056	378 488	341 569
Spread by currencies:				
	LVL	29 047		
	EUR	60 428		
	RUB	11 177 414		

Balance of outstanding debts are reflected in the balance sheet for their net value. In 2012 bad debt provisions have been written off for amount of 20 838 LVL (29 650 EUR), which have been declared as insolvent or wound up. Bad debt provisions have been created on grounds of assessment of financial status and operational activities of clients considering repayment of debts according to agreements signed and potential for recovery of debt. Reserves are made for debtors which for duration of 2 years do not reply to verification notes and cannot be found at given addresses, which have not made any payments within a year, as well as debtors regarding which insolvency procedure has been started.

18. Other debtors

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Surplus VAT payment	49 496	13 007	70 426	18 507
VAT paid in advance on boarder	441	441	627	627
Advance payment to the UIN*	25 116	25 116	35 737	35 737
Guarantee payments made	2 961	2 978	4 213	4 237

Loans to employees	1 752	1 752	2 493	2 493
Other debtors	23 248	25 750	33 079	36 639
In total other debtors	103 014	69 044	146 576	98 241

19. Expenditures of the next periods

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Insurance	8 586	9 391	12 217	13 362
Licence fees	445	526	633	748
Other	12 382	23 322	17 618	33 184
In total expenditure of the next periods	21 413	33 239	30 468	47 295

20. Money and its equivalents

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Money in accounts	10 433	4 531	14 845	6 447
Money total	10 433	4 531	14 845	6 447

	2012		2011	
Currency division	Valūta	LVL	Valūta	LVL
	LVL	8295	2 347	2 347
	EUR	1699	3 107	2 184
	USD	1776		
		10433		4531

21. Share capital, reserves and profit per share

Changes in share capital and distribution of shares among shareholders are shown in the following way:

	%	2012	2012
		LVL	EUR
Shares of closed issue			
LTD SEZ Laskana	26,00	100 655	143 219
Saldus mežrūpniecības uzņēmums Ltd.	26,99	104 489	148 674
Physical persons of the Republic of Latvia	2,99	11 577	16 473
SIA JL Lindex	15,99	61 915	88 097
Shares of public offering *	28,03	108 500	154 382
Total:	100	387 136	550 845
	31.12.2011	387 136	550 845
	31.12.2012	387 136	550 845

*Shares of public offering consist of 108 500 shares the holder and controller of which is the joint-stock company Latvian Central Depository, consequently these shares are available in the market.

All shares are signed, issued and fully paid.

Profit per share is calculated in the following way: profit of the year of account which makes 1 293 831 Ls is divided with the weighted-average number of shares in circulation in the period of account which is 387 136.

A nominal value of each share is 1 Latvian lat.

In compliance with the statutes, the profit which remains after dividends are paid and included in undividable reserves is included in other reserves and used for the further development of the company.

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Profit of the period of account	1 084 693	534 956	1 543 379	761 174
Number of shares 31.12.2012	387 136	387 136	550 845	550 845
Basic profit per share per year	2.8	1,38	3.99	1,97

22. Loans from credit institutions

	% rate in force	The repayment term	2012	2011	2012	2011
			LVL	LVL	EUR	EUR
Long-term:						
Nordea Bank Finland Plc creditline	The Base rate EONIA +	30.11.2016	1 755 041	2 099 615	2 497 199	2 987 483
Nordea Bank Finland Plc creditline	The Base rate EONIA +	30.11.2016	881 761	1 056 671	1 254 633	1 503 507
Nordea Bank Finland Plc	Fixed + %	31.07.2017	90 323	0	128 519	0
Nordea Bank Finland Plc	Fixed + %	31.07.2017	219 339	0	312 091	0
Nordea Bank Finland Plc	3 mon.Euribor + %	28.02.2018	367 976	453 718	523 583	645 583
Nordea Bank Finland Plc	3 mon.Euribor + %	05.03.2018	191 594	236 222	272 613	336 114
			3 506 035	3 846 226	4 988 638	5 472 687
Short-term:						
Nordea Bank Finland Plc creditline	The Base rate EONIA +	up to 12 mon.	351 396	0	499 992	0
Nordea Bank Finland Plc creditline	The Base rate EONIA +	up to 12 mon.	421 681	0	599 998	0
Nordea Bank Finland Plc	Fixed + %	up to 12 mon.	1 088	0	1 548	0
Nordea Bank Finland Plc	Fixed + %	up to 12 mon.	7 563	0	10 762	0
Nordea Bank Finland Plc	3 mon.Euribor + %	up to 12 mon.	85 742	85 742	122 000	122 000
Nordea Bank Finland Plc	3 mon.Euribor + %	up to 12 mon.	44 628	44 628	63 500	63 500
			912 099	130 370	1 297 800	185 500
Total			4 418 134	3 976 596	6 286 438	5 658 186

As the collateral for the claims raised due to the loan agreement signed the Company has mortgaged real estate.

23. Liabilities of financial lease and other loans

	% rate in force	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Long-term:					
SIA Hanza Līzings	3 mon. Euribor+%	0	6 223	0	8 855
SIA Nordea Līzings	Fixed rate	0	1 191	0	1 695
		0	7 415	0	10 550
Short-term:					
SIA Hanza Līzings	3 mon. Euribor+%	6 224	70 922	8 855	100 913
SIA Nordea Līzings	Fixed rate	1 191	5 715	1 695	8 131
Willenbrock Baltic UAB		0	54 150	0	77 048
		7 415	130 786	10 551	186 092
Total		7 415	138 201	10 551	196 642

Loan agreement liabilities refer to loan agreements of four motor vehicles starting from 2008, with final payment period at April 1, 2013. Accounting value of cars used in financial lease is set at 6 179 LVL (8 792 EUR). Lease agreement liabilities refer to six contracts for lease of timber and forestry equipment starting from 2006, with the maturity date at February 28, 2013. Accounting value of equipment used in the finance lease is 11 841 LVL (16 848 EUR).

24. Debts to suppliers and contractors

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Debts to suppliers and contractors	1 999 376	4 408 474	2 844 856	6 272 693

25. Taxes payable

	31.12.2011 LVL	Paid in 2012 LVL	Calculated in 2012 LVL	Fine LVL	Taxes recognized as other taxes LVL	31.12.2012 LVL
Company Income Tax(Adjustment)	25116	0	0	0	0	25116
VAT	13006	119250	-50861	-1160	-30740	49494
VAT on the boarder	441	0	0	0	0	441
Peoples Income Tax	-69082	274116	-285142	-5074	15486	-69696
Compulsory Payments of Social Insurance Tax	-66327	437184	-456285	-2086	15257	-72257
Natural Resources Tax	-438	480	-487	-7	-3	-455
Property Tax	-1861	14524	-12592	-132	0	-61
Risk due	-41	488	-524	-1	0	-78
Total	-99186					-67494
Debt on taxes	-137749					-142547
Overpayd taxes	38563					75051

	31.12.2011	Paid in 2012	Calculated in 2012	Fine	Taxes recognized as other taxes	31.12.2012
	EUR	EUR	EUR	EUR	EUR	EUR
Company Income Tax(Adjustment)	35737	0	0	0	0	35737
VAT	18506	169677	-72369	-1651	-43740	70424
VAT on the boarder	627	0	0	0	0	627
Peoples Income Tax	-98295	390032	-405721	-7220	22035	-99169
Compulsory Payments of Social Insurance Tax	-94375	622057	-649235	-2968	21709	-102812
Natural Resources Tax	-623	683	-693	-10	-4	-647
Property Tax	-2648	20665	-17916	-187	0	-86
Risk due	-58	694	-746	-2	0	-112
Total	-141129					-96036
Debt on taxes	-195999					-202826
Overpayd taxes	54870					106789

According to tax requirements of the Republic of Latvia the corporate income tax is paid in advance. Therefore after the end of reporting year when the actual tax is calculated the payable tax or overpayment of tax is established.

26. Other liabilities

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
<u>Short-term</u>				
Salary payments	73 012	61 695	103 887	87 784
Contributions to private pension funds	2 138	2 138	3 042	3 042
Payments for deductions from wages	880	806	1 252	1 147
Advance payments to empyees	369	3	525	4
Other creditors	0	925 358	0	1 316 666
	76 399	990 000	108 706	1 408 643
<u>Long-term:</u>				
Other creditors	4 025 359	0	5 727 570	0
	4 025 359	0	5 727 570	0

Loans from other creditors have been secured by motgage on real estate, in total cadastral value 147 000 LVL.

27. Accrued for holidays

	2012	2011	2012	2011
	LVL	LVL	EUR	EUR
Accrued for holidays	109 544	86 967	155 867	123 743
	109 544	86 967	155 867	123 743

28. Accrued liabilities

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Accrued liabilities	91 430	43 393	130 093	61 743
	91 430	43 393	130 093	61 743

29. Incomes from the next periods.

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Long-term:				
Project No. 124000041	12 184	23 440	17 336	33 352
Project No..04/415034/0002/023	4 978	9 966	7 084	14 180
Project No.L-APV-10-0015	378 563	731 155	538 646	1 040 340
	395725	764 561	563 066	1 087 872
Short-term				
Project No. 124000041	11 253	11 253	16 012	16 012
Project No..04/415034/0002/023	4 988	4 988	7 097	7 097
Project No.L-APV-10-0015	325 902	165 759	463 716	235 854
Other income	44	44	63	63
	342187	182 044	486 888	259 025

30. Personnel costs

	2012 LVL	2011 LVL	2012 EUR	2011 EUR
Average number of employees	175	172		
Total personnel costs				
Wages	1 307 735	1 243 708	1 860 739	1 769 637
Social tax	313 214	297 496	445 664	423 299
Unemployment risk due	524	540	746	768
	1 621 473	1 541 744	2 307 149	2 193 704
including:				
wages of production workers				
wages	1 251 973	1 176 997	1 781 397	1 674 716
social tax	299 781	281 904	426 551	401 113
unemployment risk due	509	514	724	731
	1 552 263	1 459 415	2 208 671	2 076 560
administration wages				
wages	17 454	53 691	24 835	76 396
social tax	4 205	12 935	5 983	18 404
Unemployment risk due	9	23	13	33
	21 668	66 649	30 830	94 833

incl. remuneration to company management -

board				
wages	38 308	13 020	54 508	18 526
Social tax	9 228	2 657	13 131	3 781
Unemployment risk due	6	3	9	4
	47 543	15 680	67 647	22 311

31. Transactions with associated persons

Subsidiary	Type of transaction		Income from subsidiaries		Payments to subsidiaries		Debts of subsidiaries		Credits to subsidiaries	
			LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
OOO Saldus	debt and sales of ready production	2011	272	387	0	0	124 558	177 230	0	0
		2012	331	471	0	0	125 381	178 401	0	0
OOO DOK Nr.3	debt and sales of ready production	2011	18 854	26 827	102 087	145 257	827 562	1 177 515	0	0
		2012	15 800	22 481	71 616	101 900	628 065	893 656	0	0
SIA Pakužu sporta bāze	debt and sales of ready production	2011	6 624	9 425	14 623	20 807	139 504	198 496	0	0
		2012	7 118	10 128	14 580	20 745	167 826	238 795	0	0
SIA SEZ Laskana	debt, dividends and sales of ready production	2011	5 174	7 362	0	0	384	546	0	0
		2012	29 789	42 386	0	0	0	0	0	0
SIA Saldus MRU	debt, dividends and sales of ready production	2011	73 739	104 921	286 714	407 957	9 992	14 217	6 030	8 580
		2012	48 618	69 177	165 654	235 704	9 253	13 166	73 187	104 136
		2011	104 663	148 922	403 424	574 021	1 102 000	1 568 005	6 030	8 580
		2012	101 656	144 643	251 850	358 350	930 525	1 324 018	73 187	104 136

32. Expenditures due to the environment protection

The basic economic activity of the Holding is production of timber. As a wrapping material is used polyethylene plastic. In order to secure qualitative and environmentally friendly economic activity and to reduce ecological and financial risks related to financial losses and significant loss of funds arising from penalty fee payments, there has been concluded agreement with Green Belt Ltd. on collection, transportation, recycling and regeneration of used wrapping material so that it corresponds with the requirements of normative acts, planning and organization of the said work. During maintenance work various oil filters and oils are replaced. They are collected in special places and then handed over to BAO ltd. on which there has been concluded a special agreement on collection of hazardous waste. In this way the Holding meets all environment protection requirements determined by appropriate acts and regulations so that there could be reduced impact of hazardous substances on the environment and significantly decreased possible losses, int.a.l. unplanned taxes and decreased ecological risks in all objects.

33. Financial instruments

The main financial instruments of the Holding are granted and received short-term loans, money, short-term deposits and financial lease. The main objective of these financial instruments is to secure the financing of Holding's economic activity. Also, the holding comes in touch with some other financial instruments, for example, debts of buyers and customers and debts of other debtors, debts to suppliers and constructors and other debtors which directly arise from its economic activity.

Financial risks

The main financial risks related to the Holding's financial instruments are: credit risk, currency risk, interest risk and liquidity risk.

Credit risk

The parent company of the Holding and the Holding itself is subjected to credit risks which arise from the debts of buyers and customers, short and long-term loans.

The Holding controls its credit risks by constantly estimating the history of how debtors pay back their debts and by establishing crediting conditions for each customer separately. Besides, the company constantly monitors the reminders of debtors' debts in order to decrease the possible of arising of unrecoverable debts. The Holding does not possess a significant concentration of credit risks towards a particular partner or similar transactions with a group of partners.

Foreign currency risk

To the financial assets which are under foreign currency risk belong money and its equivalents, debts of buyers and customers, advance payments for construction work, short-term loans, debts to suppliers and contractors, long-term debts to financial institutions and leasing companies.

The holding does not use any financial instruments to administrate currency fluctuations risks.

Interest risk

The companies which belong to the Holding are subjected to the interest risk; mainly they are loans from crediting institutions and leasing companies.

The management of the Holding think that the financial assets and liabilities of the Holding on December 31, 2012 were not subjected to any important interest rate risks as the deviance from the real value of particular financial assets and liabilities was not significant.

Liquidity risk

The Holding is controlling its liquidity risk by securing relevant financing, by using credit lines.

Real value

All financial assets and liabilities of the Holding which are not shown in their real value- money, debtors, other debtors, received and granted loans, debts to suppliers and contractors and the balance value of other debts correspond with their real value.

35. Events after the year of account

Except from what was said in the management statement in the period from the last day of the year of account until the date of signing this financial statement there have not occurred any events due to which there should have been done any amendments or corrections in this financial statement.

Auditor's statement

SIA "Zvērinātas revidentes S. Koļesņikovas birojs"

Vienotais reģistrācijas Nr. 40002024395

Zvērinātu revidentu komercsabiedrības licence Nr.127

Torņakalna iela 28, Rīga, LV-1004. Tālr.67285801, mob. tālr. 29235573, E- pasts: sveta.ars @ ml.lv

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Saldus mežrūpniecība

Report on the Financial Statements

We have audited the accompanying financial statements of AS Saldus mežrūpniecība set out on pages 6 to 29 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012 and the profit and loss account and the statements of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Saldus mežrūpniecība as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2012 set out on page 4 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2012.

Zvērinātas revidentes S.Koļesņikovas birojs SIA

Audit company licence No. 127

Svetlana Koļesņikova

Certified auditor

Certificate No. 22

Member of the Board

Rīga,

30 April 2013

