JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA" AND ITS SUBSIDIARY COMPANIES

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE PERIOD OF 6 MONTHS OF 2012 (UNAUDITED)

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Saldus, 2012

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Information about the Company

Name of the Company	***Saldus Timber Wood Industry (Saldus mežrūpniecība)***
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26,1991, Riga

Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrans (*Jānis Bertrāns*) – Chancellor of the Board Janis Merkalns (*Jānis Mierkalns*)– member of the Board Gatis Zommers (*Gatis Zommers*) – member of the Board
Members of the Council: name, surname, position	Uldis Melrkalns (*Uldis Mierkalns*) – Chairman of the Council Lolita Burkovska (*Lolita Burkovska*) – Deputy Chairman of the Board Maris Elleris (*Māris Elleris*) – member of the Council Janis Leimanis (*Jānis Leimanis*) – member of the Council Gunvaldis Vesmins *(Gunvaldis Vēsmiņš)* – member of the Council
Subsidiary enterprise	
1. Name of the company	*Pukuli Sports Premises (Pakuļu sporta bāze) (100%)*
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, 2012
2. Name of the company	Woodworking Centre No.3 (*Деревообрабатывающий комбинат № 3*) *(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 – June 30, 2012
3. Name of the company	Saldus (*Салдус*) *(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 – June 30, 2012
	(Translated from Latvian)
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 Consolidated report of economic activity for 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.
The consolidated profit of the holding JSC „Saldus mežrūpniecība" of year 2012 first 6 months from economic activities profits is 462 402 LVL, whereby Net turnover is 12 827 577 LVL, which comprise profits per emitted share 1,19 LVL.
The consolidated companies financial report is prepared on the base of information that is at share company board's disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company and of its consolidation group. There is true information included in the announcement.

Forecasts for financial indicators and plans for economic activities in 2012

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

Business and financial risk management policy

In order to increase competitiveness of the company in this economic situation, the production volumes are being increased by more rational use of company resources, by organization of long-term cooperation with providers of resources and by searching for new markets and analyzing client's solvency. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.
The interests of the commercial company are the care for social protection and welfare of its employees, because only thus the development of society can be sustainable.
In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economical activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks.

August 31, 2012

Board:

Jānis Bertrāns	Jānis Mierkalns	Gatis Zommers
Chairman of board	Vice-chairman	Member of board

Statement of Management Responsibility

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

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

Consolidated income statement

	30.06.2012 LVL	30.06.2011 LVL	30.06.2012 EUR	30.06.2011 EUR
Net turnover	12 827 577	13 278 502	18 251 998	18 893 606
Production costs of the sold production	-12 033 244	-12 253 332	-17 121 764	-17 434 921
Gross profit	**794 333**	**1 025 170**	**1 130 234**	**1 458 685**
Selling costs	-315 065	-828 519	-448 297	-1 178 876
General administration costs	-105 096	-96 477	-149 538	-137 274
Other income from company's economic activity	491 810	301 652	699 783	429 212
Other expenditures from company's economic activity	-309 529	-218 326	-440 420	-310 650
Profit or loss from economic activity	**556 453**	**183 500**	**791 761**	**261 097**
Other interset income and the like income	1 058	0	1 505	0
Othe interest payments and the like payments	-89 209	-78 020	-126 933	-111 012
Profit or loss before extraordinary items and taxes	**468 302**	**105 480**	**666 334**	**150 085**
Company's income tax				
Company's deferred income tax			0	0
Other taxes	-5 900	-13 421	-8 395	-19 096
Profit or (loss)	**462 402**	**92 059**	**657 939**	**130 988**
Profit/loss on share lats per share/EUR per share	**1,19**	**0,24**	**1,70**	**0,34**

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns Chairman of board	Jānis Mierkalns Vice-chairman	Gatis Zommers Member of board

Consolidated balance sheet

ASSETS

LONG-TERM INVESTMENTS	Note	30.06.2012 LVL	31.12.2011 LVL	30.06.2012 EUR	31.12.2011 EUR
Intangible investments					
Concessions, patents, licences, trademarks and the like items		6 724	20 647	9 567	29 378
Goodwill		231 776	201 034	329 788	286 046
TOTAL		**238 500**	**221 681**	**339 355**	**315 424**
Fixed assets					
Land, premises and buildings		3 992 968	4 056 025	5 681 482	5 771 204
Equipment and machinery		2 941 552	3 221 163	4 185 451	4 583 302
Other fixed assets		44 251	51 333	62 964	73 040
Unfinished constructions		307 159	227 948	437 048	324 341
Advance payments for fixed assets		3 600 575	3 335 699	5 123 157	4 746 272
TOTAL		**10 886 505**	**10 892 168**	**15 490 101**	**15 498 159**
Biological assets		**677 492**	**677 492**	**963 984**	**963 984**
Long-term financial investments					
Deferred company's income tax		26 219	26 212	37 306	37 296
TOTAL		**26 219**	**26 212**	**37 306**	**37 296**
TOTAL LONG-TERM INVESTMENTS		**11 828 716**	**11 817 553**	**16 830 747**	**16 814 863**
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		179 849	175 916	255 902	250 306
Biological assets		399 707	399 707	568 732	568 732
Unfinished production		1 229 423	1 248 415	1 749 311	1 776 335
Finished production and goods for sale		432 137	612 075	614 876	870 904
Advance payments for goods		35 342	35 235	50 287	50 135
TOATL		**2 276 458**	**2 471 348**	**3 239 108**	**3 516 411**
Noncurrent assets held for sale					
Fixed assets held for sale		**85 854**	**89 654**	**122 159**	**127 566**
Debtors					
Debts of buyers and customers		583 580	300 057	830 360	426 943
Debts of subsidiaries			25 116	0	35 737
Other debtors		95 189	121 568	135 442	172 976
Expenditures of the next periods		267 587	243 708	380 742	346 765
TOTAL		**946 356**	**690 449**	**1 346 543**	**982 420**
Money and its equivalents		79 357	5 026	112 915	7 151
TOTAL CURRENT ASSETS		**3 388 025**	**3 256 477**	**4 820 725**	**4 633 549**
TOTAL ASSETS		**15 216 741**	**15 074 030**	**21 651 472**	**21 448 412**

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns	Jānis Mierkalns	Gatis Zommers
Chairman of board	Vice-chairman	Member of board

Consolidate balance sheet (continuation)

LIABILITIES

	30.06.2012	31.12.2011	30.06.2012	31.12.2011
Shareholders'equity	**LVL**	**LVL**	**EUR**	**EUR**
Share capital	387 136	387 136	550 845	550 845
Increase of price of the issue of shares	1 987	1 987	2 827	2 827
Fluctation of exchange rate	2 724	-36 663	3 876	-52 167
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 previos year	-67 260	-414 609	-95 702	-589 935
Retained earnings from the year of accunt	462 402	326 349	657 939	464 353
Total shareholders'equity	**4 212 566**	**3 689 777**	**5 993 941**	**5 250 080**
Long-term liabilities				
Long-term loans from credit institutions	4 029 915	4 109 500	5 734 052	5 847 292
Long-term part of financial lease liabilities	0	7 415	0	10 551
Other creditors	50 338	55 042	71 625	78 318
Acrued liabilities	86 967	86 967	123 743	123 743
Long-term part of incomes from next periods	673 559	764 561	958 388	1 087 872
TOTAL	**4 840 779**	**5 023 485**	**6 887 808**	**7 147 775**
Short-term liabilities				
Short-term loans from credit institutions	143 004	143 022	203 476	203 502
Short-term part of financial lease	49 069	130 786	69 819	186 092
Advance payments received from buyers	0	245 358	0	349 113
Debts to suppliers and contractors	4 582 833	4 464 560	6 520 784	6 352 497
Liabilities provisions	41 734	50 017	59 382	71 168
Taxes payable	106 791	145 003	151 950	206 321
Other creditors	1 057 921	999 978	1 505 286	1 422 841
Incomes from the next periods short-term part	182 044	182 044	259 025	259 025
TOTAL	**6 163 396**	**6 360 768**	**8 769 722**	**9 050 557**
Total liabilities	**11 004 175**	**11 384 253**	**15 657 530**	**16 198 333**
Total shareholders'equity and liabilities	**15 216 741**	**15 074 030**	**21 651 472**	**21 448 412**

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns	Jānis Mierkalns	Gatis Zommers
Chairman of board	Vice-chairman	Member of board

Consolidated cash flow statement

I.Cash flow from basic activity	30.06.2012 LVL	31.12.2011 LVL	30.06.2012 EUR	31.12.2011 EUR
Profit (+) or loss (-) before extraordinary items and taxes:	**462 402**	**226 288**	**657 939**	**321 979**
wear and tear of fixed assets and intangible investments (+)	465 586	685 885	662 469	975 926
elimination of fixed assets and intangible investments	0	-95 104	0	-135 321
revaluation of biological assets	0	-103 070	0	-146 655
Acruals (except acruals for doubtful debts)	0	-32 560	0	-46 329
profit (-) or loss (+) from fluctuations of exchange rate	0	-52	0	-74
Income from finansation recognation	-91 002	-91 925	-129 484	-130 797
Interest expenditure	57 815	124 054	82 263	176 513
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	**894 801**	**713 516**	**1 273 187**	**1 015 242**
increase (+) or decrease (-) of debtors debt	-255 907	244 067	-364 123	347 276
increase (+) or decrease (-) of the reserves of accruals	198 690	1 355 744	282 710	1 929 050
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-120 341	1 075 365	-171 230	1 530 107
Gross cash flow from basic activity	**717 243**	**3 388 692**	**1 020 545**	**4 821 674**
Expenditures to pay interest payments	-57 815	-123 351	-82 263	-175 513
Expenditures to pay company's income tax and immovable property tax	0	-16 957	0	-24 128
Net cash flow from basic activity	**659 428**	**3 248 384**	**938 282**	**4 622 034**
II. Cash flow from investments				
Income from selling fixed assets and intangible investments	0	15 112	0	21 502
Acquisition of fixed assets and intangible investments	-69 376	-3 315 848	-98 713	-4 718 027
Expenditures for advance payments for fixed assets and unfinished	-407 366	-1 216 138	-579 630	-1 730 408
Loans issued	0	0	0	0
Net cash flow from investments	**-476 742**	**-4 516 874**	**-678 343**	**-6 426 933**
III. Cash flow from financing activities				
Recieved loans	0	-194 256	0	-276 401
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-79 603	1 043 466	-113 265	1 484 718
Expenditures for redemption of asset that was hired	-89 132	-107 997	-126 823	-153 666
Cash flow from financing activities	**-168 735**	**1 223 109**	**-240 088**	**1 740 327**
IV. Fluctuations of exchange rate	**60 380**	**-48 038**	**85 913**	**-68 352**
V. Net cash flow of the year of account increase (+), decrease (-)	**74 331**	**-93 419**	**105 763**	**-132 923**
VI. Money and its equivalents balance at the beginning of the year of account	**5 026**	**98 445**	**7 151**	**140 075**
VII. Money and its equivalents balance at the end of the year of account	**79 357**	**5 026**	**112 915**	**7 151**

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns	Jānis Mierkalns	Gatis Zommers
Chairman of board	Vice-chairman	Member of board

Statement on the changes in own capital

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	**Toatal own capital**
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2010	**387 136**	**802 492**	**-31 732**	**1 987**	**2 623 085**	**-133 606**	**-237 843**	**3 411 519**
Fluctuation of exchange rate			-4 931					-4 931
Distribution of profit of the year 2010						-281 002	237 843	-43 159
Profit of the year of account	0						326 349	326 349
December 31, 2011	**387 136**	**802 492**	**-36 663**	**1 987**	**2 623 085**	**-414 608**	**326 349**	**3 689 778**
Fluctuation of exchange rate			39 387					39 387
Distribution of profit of the year 2011						347 348	-326 349	20 999
Profit of the year of account	0						462 402	462 402
June 30, 2012	**387 136**	**802 492**	**2 724**	**1 987**	**2 623 085**	**-67 260**	**462 402**	**4 212 566**

	Share capital	Reserves from revaluation of long-term investments	Currency fluctuations due to the reestimation of foreign currency	Share premium	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	**Toatal own capital**
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2010	**387 136**	**802 492**	**-31 732**	**1 987**	**2 623 085**	**-133 606**	**-237 843**	**3 411 519**
Fluctuation of exchange rate			-4 931					-4 931
Distribution of profit of the year 2010						-281 002	237 843	-43 159
Profit of the year of account	0						326 349	326 349
December 31, 2011	**387 136**	**802 492**	**-36 663**	**1 987**	**2 623 085**	**-414 608**	**326 349**	**3 689 778**
Fluctuation of exchange rate			39 387					39 387
Distribution of profit of the year 2011						347 348	-326 349	20 999
Profit of the year of account	0						462 402	462 402
June 30, 2012	**387 136**	**802 492**	**2 724**	**1 987**	**2 623 085**	**-67 260**	**462 402**	**4 212 566**

Board:

Jānis Bertrāns Chairman of board	Jānis Mierkalns Vice-chairman	Gatis Zommers Member of board

Annex to the financial statement

1. Corporative information

Distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC "Saldus mežrūpniecība" established new subsidiary companies in the Russian Federation, which main economic activity will be logging and production of sawn timber. In 2005, JSC "Saldus mežrūpniecība" purchased 100% shares of "Pakuļi Sports Centre" Ltd., which main activity is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.
As the result of the above mentioned activities JSC "Saldus mežrūpniecība" has prepared its year 2012 first 6 month consolidated report, hereinafter Holding company.

2. Important accounting principles

In preparation of the holding company's financial statement, there were used the following accounting principles:

Principles of preparing the financial statement

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statement was prepared in compliance with the Principle of Historical Cost.

Currency and items used in the preparation of the financial statement

In financial statements as a monetary unit is used Latvian lat (Ls)- the monetary unit of the Republic of Latvia.

Consolidation

The consolidated financial statement includes the financial statements of the joint-stock company Saldus mežrūpniecība and its subsidiary companies Pakuļi Sports Centre ltd., ooo Деревообрабатывающий комбинат № 3 and ooo Saldus. The financial statements of the subsidiary companies were prepared in the same year as the financial statement of the holding's parent company and using the same accounting policies. The consolidated financial statement includes all assets, liabilities, incomes, expenditures, profit, loss and cash flow of the joint-stock company Saldus mežrūpniecības and the financial statements of all its subsidiary companies over which the parent company keeps its control in the way as if the joint-stock company Saldus mežrūniecība and its subsidiary companies were one company. In preparation of the Holding's financial statement is excluded the interrelated unrealized profit, mutual payments, mutually owned capital shares and other mutual deals. When purchasing its subsidiary companies the Holding uses a purchase method. The predominance of purchase costs over the real value of net actives obtained by the Holding is accounted as an intangible value.

Consolidation of foreign subsidiary companies

By including in the financial statements the financial showings of foreign subsidiary companies, the Holding's parent company recalculates monetary and non-monetary assets, liabilities, incomes and expenditures in accordance with the exchange rate established by the Bank of Latvia on the last day of the year of account. Differences in the exchange rate which arise when assets and liabilities are reflected are classified as own capital. The consolidation of the financial statements of foreign subsidiary companies is carried out in compliance with the established consolidation procedures, e.g. by excluding mutual transactions of the companies which belong to the same Holding.

Changes in the accounting principles

In 2006, the Holding accepted the IFRS which were amended in 2004 and the application of which is mandatory for the financial years starting from January 1, 2005 or later. To apply these standards there were not made any significant changes in the Holding's financial principles. Consolidation was carried out in 2006 for the first time as in 2005 the results of subsidiary companies did not significantly impact the parent company's showings.

Application of the International Financial Rreporting Standards

- IAS 1 Presentation of financial statements
- IAS 2 Inventories
- IAS 7 Cash flow statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates,and Errors
- IAS 10 Events After the Balance Sheet Date
- IAS 14 Segments Reporting
- IAS 16 Property,Plant, and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits

- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs
- IAS 24 Related-Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earning per Share
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities, and Contingent assets
- IAS 38 Intangible assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 41 Agriculture
- IFRS 5 Noncurrent Assets Held for Sales and Discontinued Operations

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.

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the ooo Saldus and 000 Деревообрабатывающий комбинат № 3 where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the ooo Saldus and ooo Saldus Ļes into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	30.06.2012.	**31.12.2011.**
RUB	0.0171	0.0170
EUR	0.702804	0.702804

Intangible investments

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

The intangible investments include the licences of software used in the Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are includes as expenditures in the profit/loss statement.

Capital assets

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated

Wear and tear is calculated for the time of their effective use, by applying a linear method:

Buildings, constructions	10-20 years
Equipment and machinery	2-10 years
Forest equipment	3-5 years
Timber processing lines	3-10 years
Other capital assets	2-10 years
Computing and data gathering devices, software	2-5 years

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.
The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value can not be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount.

Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Wear and tear for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

Noncurrent assets held for sales

An entity should classify a noncurrent asset as held for sale if its carrying amont will be recovered principally trough a sale transaction rather than trough cuntnuing use.For this to be case, the asset must be available for immediate sale in its present condition – subject only to terms that are usual and customary for sales of such assets.
An entity should recignize a gain for any subsequent increase in fair value less costs to sell of an assetm but not in execess of the cumulative impairment loss that has beenpreviously recignizes.

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 2011 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 2011. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

Decrease of the value of assets

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

Loan costs

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle IAS 23.

Lease

Financial lease transactions when the Holding is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

Lease of capital assets when practically all risks arising from proprietorship and compensation receives lessor is classified as operative lease. Lease payments then are accounted as expenditures during the whole period of lease and are attributed to the profit or loss calculation in the whole period of lease by using a linear method.

Inventories

Unfinished products

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

Raw materials are accounted in their purchase costs.

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

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

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

Debts of buyers and customers

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

Money and its equivalents

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less.

Share capital

Common shares are classified as own capital. Alls shares are registered shares and in non-material form.

Profit per share

Profit per share is calculated in the following way: profit of the year of account after taxes is divided with weighted-average number of shares in circulation in the period of account.

Credits and loans

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

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

Accruals

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

Accruals and deferred liabilities

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

Income recognition

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

Incomes from service rendering mainly include transport services related to timber processing.

Incomes from services are recognized and they correspond with the volume of service. Incomes from services are recognized in the period when they were rendered.

If it is not possible to reasonably estimate the outcome of deal, income is recognized only in the amount in which recognized expenditures could be recovered.

Sale of goods

Incomes are recognized when the Holding has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Holding has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors' debts.

Interest

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

Dividends
Incomes are recognized when shareholders have rights to receive them.

Income from lease

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

Taxes

Company income tax

The income tax of parent and subsidiary companies of the Holding is calculated by applying the 15% company income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

Deferred company income tax

Deferred company income tax, which has arisen from short-term differences by including particular posts in tax declaration and in this financial statement, is calculated by applying the Liability Tax Allocation Method. The assets and liabilities of the deferred company income tax are established on the basis of tax rates which are to be applied when disappear short-term differences. Main short-term differences arise from different wear and tear rates applied by accounting and taxation needs as well as from particular accruals and tax losses which have been transferred on to the following five years. The assets of deferred company income tax in the financial statement are shown only in the case if their recoverability could be plausibly foreseen.

Possible liabilities and assets

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

Allowances

Parent and subsidiary companies of the Holding pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments. Parent company does not have to follow additional legal or other liabilities or to make additional payments if the state funded pension schemes or private pension plans can not meet their liabilities towards employees. Social insurance and pension plan payments as well as health insurance payments are included in the expenditures in the same period when the according payment was made. Pension plan payments and cash flow are similar, and the employer does not account assets or liabilities by accruals method.

Associated persons

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

Events after the end of the year of account

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

3. Segments of the Holding activities

	Logging		Timber procesing		Other		Total	
	30.06.2012	31.12.2011	30.06.2012	31.12.2011	30.06.2012	31.12.2011	30.06.2012	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	2 547 489	6 733 596	9 658 575	18 322 062	621 513	848 622	12 827 577	25 904 280
Product costs of sold products	-1 965 855	-6 000 254	-9 221 753	-17 661 797	-845 636	-567 153	-12 033 244	-24 229 204
Selling cost	-281 894	-649 068	-33 166	-52 166	-5	-66 169	-315 065	-767 403
General administration cost	-3 352	-12 913	-39 328	-27 781	-62 416	-209 461	-105 096	-250 155
Other income/expenditures from ecanomic acitivity	-2 387	-34 099	190 300	-141 395	-5 632	3 459	182 281	-172 035
Segment profit	**294 001**	**37 262**	**554 628**	**438 923**	**-292 176**	**9 298**	**556 453**	**485 483**
Financial expenditure	-3 272	-7 762	-21 381	-67 592	-63 498	-183 841	-88 151	-259 195
Company income tax (undistributable)	0	0	0	0	0	113 877	0	113 877
Other taxes	0	0	0	0	-5 900	-8 640	-5 900	-13 816
Net result	**290 729**	**29 500**	**533 247**	**371 331**	**-361 574**	**-69 306**	**462 402**	**326 349**
Segment assets	3 021 964	3 919 248	11 457 506	10 657 339	737 271	497 443	15 216 741	14 942 722
Segment liabilities	2 485 939	3 467 027	11 661 446	10 250 340	1 069 356	1 356 663	15 216 741	14 942 722

	Logging		Timber processing		Other		Total	
	30.06.2012	31.12.2011	30.06.2012	31.12.2011	30.06.2012	31.12.2011	30.06.2012	31.12.2011
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	3 624 750	9 581 044	13 742 914	26 069 946	884 333	1 207 480	18 251 998	36 858 470
Product costs of sold products	-2 797 160	-8 537 592	-13 121 372	-25 130 473	-1 203 232	-806 986	-17 121 764	-34 475 051
Selling cost	-401 099	-923 541	-47 191	-74 226	-7	-94 150	-448 297	-1 091 916
General administration cost	-4 769	-18 374	-55 959	-39 529	-88 810	-298 036	-149 538	-355 938
Other income/expenditures from ecanomic acitivity	-3 396	-48 519	270 773	-201 187	-8 014	4 922	259 362	-244 784
Segment profit	**418 326**	**53 019**	**789 165**	**624 531**	**-415 729**	**13 230**	**791 761**	**690 780**
Financial expenditure	-4 656	-11 044	-30 422	-96 175	-90 350	-261 582	-125 428	-368 801
Company income tax (undistributable)	0	0	0	0	0	162 032	0	162 032
Other taxes	0	0	0	0	-8 395	-12 294	-8 395	-19 658
Net result	413 670	41 975	758 742	528 356	-514 473	-98 614	657 939	464 353
Segment assets	4 299 868	5 576 587	16 302 562	15 164 027	1 049 042	707 798	21 651 472	21 261 578
Segment liabilities	3 537 172	4 933 135	16 592 743	14 584 920	1 521 557	1 930 358	21 651 472	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 LVL	**2011** LVL	**2012** EUR	**2011** EUR
Income from sales, int. AI.	**12 135 361**	**24 437 664**	**17 267 063**	**34 771 663**
Latvia	12 135 361	24 437 664	17 267 063	34 771 663
the EU countries				
Other countries				
Income from rendering of services, int. AI.	**692 216**	**1 371 308**	**984 935**	**1 951 195**
Latvia	655 892	1 371 308	933 250	1 951 195
the EU countries				
Other countries	36 324		51684	
	12 827 577	**25 808 972**	**18 251 998**	**36 722 858**