JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

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

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

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 (*Māria 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

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 first 6 month of 2012 are 542 661 LVL at the net turnover of 12 791 253LVL, which means profit on one share issued of 1.40 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.

Forecasts for financial statments and operational plans of 2012

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

Business and financial risk management policy

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

August 31, 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.

Profit or loss calculation

	30.06.2012 LVL	31.12.2011 LVL	30.06.2012 EUR	31.12.2011 EUR
Net turnover	12 791 253	25 900 941	18 200 313	36 853 719
Production costs of the sold production	-12 003 560	-24 191 378	-17 079 527	-34 421 230
Gross profit	**787 693**	**1 709 563**	**1 120 786**	**2 432 489**
Selling costs	-282 272	-726 954	-401 637	-1 034 362
General administration costs	-72 294	-213 164	-102 865	-303 305
Other income from company's economic activity	429 648	331 861	611 334	472 196
Other expenditures from company's economic activity	-239 087	-458 554	-340 190	-652 464
Profit or loss from economic activity	**623 688**	**642 752**	**887 428**	**914 554**
Other interset income and the like income	1 003	28 103	1 427	39 987
Othe interest payments and the like payments	-76 130	-236 117	-108 323	-335 964
Profit or loss before extraordinary items and taxes	**548 561**	**434 738**	**780 532**	**618 576**
Company's income tax				
Company's deferred income tax		113 877	0	162 032
Other taxes	-5 900	-13 659	-8 395	-19 435
Profit or (loss)	**542 661**	**534 956**	**772 137**	**761 174**
Profit/loss on share lats per share/EUR per share	**1,40**	**1,38**	**1,99**	**1,97**

The annex is an integral part of this financial statement
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Board:

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

Balance sheet

ASSETS	Note	30.06.2012 LVL	31.12.2011 LVL	30.06.2012 EUR	31.12.2011 EUR
LONG-TERM INVESTMENTS					
Intangible investments					
Concessions, patents, licences, trademarks and the like items		6 724	10 114	9 567	14 391
TOTAL	**13**	**6 724**	**10 114**	**9 567**	**14 391**
Fixed assets				0	
Land, premises and buildings		3 449 976	3 506 275	4 908 874	4 988 980
Equipment and machinery		2 777 441	3 125 983	3 951 943	4 447 873
Other fixed assets		43 782	51 232	62 296	72 897
Unfinished constructions		221 979	88 109	315 848	125 368
Advance payments for fixed assets		3 600 575	3 335 699	5 123 157	4 746 272
TOTAL	14	**10 093 753**	**10 107 298**	**14 362 117**	**14 381 389**
Biological assets		**677 492**	**677 492**	**963 984**	**963 984**
Long-term financial investments				0	
Participation in the capital of related companies	15	415 142	415 142	590 694	590 694
Loans to the related companies	16	881 037	832 442	1 253 603	1 184 458
Deferred company's income tax		25 030	25 030	35 614	
TOTAL		**1 321 209**	**1 272 614**	**1 879 911**	**1 775 152**
TOTAL LONG-TERM INVESTMENTS		**12 099 178**	**12 067 518**	**17 215 579**	**17 134 917**
				0	
CURRENT ASSETS				0	
Stocks				0	
Raw materials, direct materials, auxiliary materials		20 086	13 858	28 580	19 718
Biological assets		399 707	399 707	568 732	568 732
Unfinished production		1 201 722	1 248 415	1 709 896	1 776 335
Finished production and goods for sale		415 053	566 134	590 567	805 536
Advance payments for goods		17 153	17 153	24 407	24 407
TOTAL	17	**2 053 721**	**2 245 267**	**2 922 182**	**3 194 727**
Noncurrent assets held for sale				**0**	
Fixed assets held for sale		**85 854**	**89 654**	**122 159**	**127 566**
Debtors				0	
Debts of buyers and customers	18	503 589	227 536	716 543	323 755
Debts of subsidiaries	18	265 806	240 056	378 208	341 569
Other debtors	19	29 846	69 044	42 467	98 241
Expenditures of the next periods	20	55 092	33 239	78 389	47 295
TOTAL		**854 333**	**569 875**	**1 215 606**	**810 859**
Money and its equivalents	21	76 579	4 531	108 962	6 447
TOTAL CURRENT ASSETS		**3 070 487**	**2 909 327**	**4 368 909**	**4 139 599**
TOTAL ASSETS		**15 169 665**	**14 976 845**	**21 584 489**	**21 274 516**

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

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
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	434 160	-100 796	617 754	-143 420
Retained earnings from the year of accunt	542 661	534 956	772 137	761 174
Total shareholders'equity	**4 791 521**	**4 248 860**	**6 817 720**	**6 045 583**
Other reservs	86 967	86 967	123 743	123 743
TOTAL	**86 967**	**86 967**	**123 743**	**123 743**
Long-term liabilities				
Deferred company's income tax			0	0
Long-term loans from credit institutions	3 786 276	3 846 226	5 387 385	5 472 687
Long-term part of financial lease liabilities	0	7 415	0	10 551
Other creditors	0	0	0	0
Long-term part of incomes from next periods	673 559	764 561	958 388	1 087 872
TOTAL	**4 459 835**	**4 618 202**	**6 345 774**	**6 571 109**
Short-term liabilities				
Short-term loans from credit institutions	130 370	130 370	185 500	185 500
Short-term part of financial lease	43 679	130 786	62 150	186 092
Debts to suppliers and contractors	4 278 729	4 408 474	6 088 083	6 272 693
Accrued liabilities	38 813	43 393	55 226	61 743
Taxes payable	101 585	137 749	144 542	195 999
Other creditors	1 056 122	990 000	1 502 726	1 408 643
Incomes from the next periods short-term part	182 044	182 044	259 025	259 025
TOTAL	**5 831 342**	**6 022 816**	**8 297 252**	**8 569 695**
Total liabilities	**10 291 177**	**10 641 018**	**14 643 026**	**15 140 805**
Total shareholders'equity and liabilities	**15 169 665**	**14 976 845**	**0 21 584 489**	**21 310 131**

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Board:

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

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:	**542 661**	**434 738**	**772 137**	**618 576**
wear and tear of fixed assets and intangible investments (+)	485 795	672 256	691 224	956 534
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	-27 635	0	-39 321
Interest income	0	-25 750	0	-36 639
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	**995 269**	**855 004**	**1 416 140**	**1 216 561**
increase (+) or decrease (-) of debtors debt	-284 458	169 100	-404 748	240 608
increase (+) or decrease (-) of the reserves of accruals	195 346	1 389 120	277 952	1 976 540
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	-104 367	1 004 486	-148 501	1 429 255
Gross cash flow from basic activity	**801 790**	**3 417 710**	**1 140 844**	**4 862 963**
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	-15 774	0	-22 444
Net cash flow from basic activity	**743 975**	**3 278 585**	**1 058 581**	**4 665 006**
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	-399 484	-1 219 530	-568 415	-1 735 235
Loans issued	-48 595	-73 319	-69 144	-104 324
Income from loans repaymens	0	0	0	0
Net cash flow from investments	**-517 455**	**-4 593 585**	**-736 272**	**-6 536 083**
III. Cash flow from financing activities				
Recieved loans	0	1 043 466	0	1 484 718
Recieved subsidies, donations or benefactions	0	481 896	0	685 676
Expenditures for paying back loans	-59 950	-130 370	-85 301	-185 500
Expenditures for redemption of asset that was hired	-94 522	-84 049	-134 493	-119 591
Cash flow from financing activities	**-154 472**	**1 310 943**	**-219 794**	**1 865 304**
IV. Fluctuations of exchange rate	**0**	**52**	**0**	**74**
V. Net cash flow of the year of account increase (+), decrease (-)	**72 048**	**-4 005**	**102 515**	**-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	**76 579**	**4 531**	**108 962**	**6 447**

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	Share premium	Reserves from revaluation of long-term investments	Other reserves	Previous years retained earnings	Retained profit/loss of the year of account	**Toatal own capital**
	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	542 661	542 661
June 30, 2012	**387 136**	**1 987**	**802 492**	**2 623 085**	**434 160**	**542 661**	**4 791 521**

	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	772 137	772 137
June 30, 2012	**550 845**	**2 827**	**1 141 843**	**3 732 314**	**617 754**	**772 137**	**6 817 720**

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

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 30 June 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:.

	30.06.2012	**31.12.2011**
	Ls	**Ls**
1 RUB	0.0171	0.0170
1 EUR	0.702804	0.702804

Intangible investment

Intangible assets include software licences used in the company, intanglible 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 strighyt line method. Costs assosiated with maintenance of software are accounted as costs in the income statement.

Property, plant and equipment

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

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

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

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalised as an additional cost of property, plant and equipment.
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable 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.

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.

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.

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 transpotr services, and timber processing related services. Inomce 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 acdepted products according to the contract provisions and satisfactory evidence is acquired as to receipt of debitors recievables.

Interesti

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.

Accruals and deferred liabilities

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

Events after the end of the year of account

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

3. Segments of the Holding activities

	Logging		Timber procesing		Other		Total	
	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	2 514 674	6 733 596	9 655 066	18 318 723	621 513	848 622	12 791 253	25 900 941
Product costs of sold products	-1 937 900	-6 000 254	-9 220 024	-17 623 971	-845 636	-567 153	-12 003 560	-24 191 378
Selling cost	-279 139	-649 068	-3 128	-11 717	-5	-66 169	-282 272	-726 954
General administration cost	-2 200	-5 922	-8 831	-12 781	-61 263	-194 461	-72 294	-213 164
Other income/expenditures from ecanomic acitivity	-2 080	-19 099	206 552	-111 053	-13 911	3 459	190 561	-126 693
Segment profit	**293 355**	**59 253**	**629 635**	**559 201**	**-299 302**	**24 298**	**623 688**	**642 752**
Financial expenditure	-3 083	-6 581	-9 362	-19 592	-62 682	-181 841	-75 127	-208 014
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	-13 659
Net result	**290 272**	**52 672**	**620 273**	**539 609**	**-367 884**	**-52 306**	**542 661**	**534 956**
Segment assets	2 982 254	4 034 535	11 450 334	10 459 905	737 077	448 282	15 169 665	14 942 722
Segment liabilities	2 449 048	3 137 972	11 651 933	11 057 614	1 068 684	747 136	15 169 665	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	3 578 059	9 581 044	13 737 921	26 065 195	884 333	1 207 480	18 200 313	36 853 719
Product costs of sold products	-2 757 383	-8 537 592	-13 118 912	-25 076 652	-1 203 232	-806 986	-17 079 527	-34 421 230
Selling cost	-397 179	-923 541	-4 451	-16 672	-7	-94 150	-401 637	-1 034 362
General administration cost	-3 130	-8 426	-12 565	-18 186	-87 169	-276 693	-102 865	-303 305
Other income/expenditures from ecanomic acitivity	-2 960	-27 175	293 897	-158 014	-19 794	4 922	271 144	-180 268
Segment profit	417 407	84 309	895 890	795 671	-425 868	34 573	887 428	914 554
Financial expenditure	-4 387	-9 364	-13 321	-27 877	-89 188	-258 736	-106 896	-295 977
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	-19 435
Net result	**413 020**	**74 946**	**882 569**	**767 794**	**-523 452**	**-74 425**	**772 137**	**761 174**
Segment assets	4 243 365	5 740 626	16 292 357	14 883 104	1 048 767	637 848	21 584 489	21 261 578
Segment liabilities	3 484 681	4 464 932	16 579 207	15 733 567	1 520 601	1 063 079	21 584 489	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.	655 892	1 371 308	933 250	1 951 195
Latvia	655 892	1 371 308	933 250	1 951 195
the EU countries				
Other countries				
	12 791 253	**25 808 972**	**18 200 313**	**36 722 858**