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

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2011

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

AND INDEPENDENT AUDITORS' STATEMENT

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 Gundars Maurs (*Gundars Maurs*) – 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 Ainis Dabols (*Ainis Dābols*) – member of the Council (till September 23, 2011)
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 – December 31, 2011
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 – December 31, 2011
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 – December 31, 2011
	(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 2011

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 2011 from economic activities profits is 326 349 LVL, whereby Net turnover is 25 904 280 LVL, which comprise profits per emitted share 0,84 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.

April 30, 2012

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

Statement of Management Responsibility

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

The Management confirms that, in preparing this report for the period ending on 31 December 2011, 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

	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Net turnover	4	25 904 280	19 660 224	36 858 470	27 973 979
Production costs of the sold production	5	-24 229 204	-18 602 346	-34 475 051	-26 468 754
Gross profit		**1 675 076**	**1 057 878**	**2 383 418**	**1 505 225**
Selling costs	6	-767 403	-841 396	-1 091 916	-1 197 199
General administration costs	7	-250 155	-230 221	-355 938	-327 575
Other income from company's economic activity	8	333 222	422 781	474 132	601 563
Other expenditures from company's economic activity	8	-505 257	-492 133	-718 916	-700 242
Profit or loss from economic activity		**485 483**	**-83 091**	690 780	**-118 228**
Other interset income and the like income	10	18 338	0	26 093	0
Othe interest payments and the like payments	10	-277 533	-143 085	-394 894	-203 592
Profit or loss before extraordinary items and taxes		**226 288**	**-226 176**	**321 979**	**-321 819**
Company's income tax	11				
Company's deferred income tax	11	113 877	15 490	162 032	22 040
Other taxes	12	-13 816	-27 157	-19 658	-38 641
Profit or (loss)		**326 349**	**-237 843**	**464 353**	**-338 420**

The annex is an integral part of this financial statement

Board :

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

Consolidated balance sheet

ASSETS

LONG-TERM INVESTMENTS	Note	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Intangible investments					
Concessions, patents, licences and the like items	13	20 647	34 202	29 378	48 665
Goodwill		201 034	201 034	286 046	286 046
TOTAL		**221 681**	**235 236**	**315 424**	**334 711**
Fixed assets					
Land, premises and buildings		4 056 025	2 835 210	5 771 204	4 034 140
Equipment and machinery		3 221 163	1 236 146	4 583 302	1 758 877
Other fixed assets		51 333	18 468	73 040	26 278
Unfinished constructions		227 948	1 458 255	324 341	2 074 910
Advance payments for fixed assets		3 335 699	1 405 810	4 746 272	2 000 287
TOTAL	14	**10 892 168**	**6 953 889**	**15 498 159**	**9 894 493**
Biological assets		**677 492**	**636 134**	**963 984**	**905 137**
Long-term financial investments					
Deferred company’s income tax		26 212	0	37 296	0
TOTAL		**26 212**	**0**	**37 296**	**0**
TOTAL LONG-TERM INVESTMENTS		**11 817 553**	**7 825 259**	**16 814 863**	**11 134 340**
CURRENT ASSETS					
Stocks					
Raw materials, direct materials, auxiliary materials		175 916	245 536	250 306	349 366
Biological assets		399 707	337 995	568 732	480 924
Unfinished production		1 248 415	2 843 643	1 776 335	4 046 139
Finished production and goods for sale		612 075	191 209	870 904	272 066
Advance payments for goods		35 235	123 085	50 135	175 134
TOATL	15	**2 471 348**	**3 741 468**	**3 516 411**	**5 323 629**
Noncurrent assets held for sale					
Fixed assets held for sale		**89 654**	**210 197**	**127 566**	**299 083**
Debtors					
Debts of buyers and customers	16	300 057	279 591	426 943	397 822
Debts of subsidiaries		25 116	115 845	35 737	164 833
Other debtors		0	1 224	0	1 742
Other debtors	17	121 568	114 203	172 976	162 496
Expenditures of the next periods	18	243 708	304 093	346 765	432 685
TOTAL		**690 449**	**814 956**	**982 420**	**1 159 578**
Money and its equivalents	19	5 026	98 445	7 151	140 075
TOTAL CURRENT ASSETS		**3 256 477**	**4 865 066**	**4 633 549**	**6 922 365**
TOTAL ASSETS		**15 074 030**	**12 690 325**	**21 448 412**	**18 056 706**

The annex is an integral part of this financial statement

Board:

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

Consolidate balance sheet (continuation)

LIABILITIES

	Note	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Shareholders'equity		**LVL**	**LVL**	**EUR**	**EUR**
Share capital	20	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		-36 663	-31 732	-52 167	-45 151
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		-414 609	-133 607	-589 935	-190 106
Retained earnings from the year of accunt		326 349	-237 843	464 353	-338 420
Total shareholders'equity		**3 689 777**	**3 411 518**	**5 250 080**	**4 854 153**
Long-term liabilities					
Deferred company's income tax		0	88 848	0	126 419
Long-term loans from credit institutions	21	4 109 500	1 147 488	5 847 292	1 632 728
Long-term part of financial lease liabilities	22	7 415	84 051	10 551	119 594
Other creditors		55 042	947 269	78 318	1 347 842
Acrued liabilities	25	86 967	119 527	123 743	170 072
Long-term part of incomes from next periods	27	764 561	540 393	1 087 872	768 910
TOTAL		**5 023 485**	**2 927 576**	**7 147 775**	**4 165 565**
Short-term liabilities					
Short-term loans from credit institutions	21	143 022	2 255 824	203 502	3 209 748
Short-term part of financial lease	22	130 786	138 199	186 092	196 639
Advance payments received from buyers		245 358	276 499	349 113	393 423
Debts to suppliers and contractors		4 464 560	3 482 658	6 352 497	4 955 376
Liabilities provisions	26	50 017	17 041	71 168	24 247
Taxes payable	23	145 003	96 467	206 321	137 260
Other creditors	24	999 978	68 302	1 422 841	97 185
Incomes from the next periods short-term part	27	182 044	16 241	259 025	23 109
TOTAL		**6 360 768**	**6 351 231**	**9 050 557**	**9 036 988**
Total liabilities		**11 384 253**	**9 278 807**	**16 198 333**	**13 202 553**
Total shareholders'equity and liabilities		**15 074 030**	**12 690 325**	**21 448 412**	**18 056 706**

The annex is an integral part of this financial statement

Board:

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

Consolidated cash flow statement

	31.12.2011 Ls	31.12.2010 Ls
I.Cash flow from basic activity		
Profit (+) or loss (-) before extraordinary items and taxes:	**226 288**	**-226 176**
wear and tear of fixed assets and intangible investments (+)	685 885	585 248
elimination of fixed assets and intangible investments	-95 104	113 987
revaluation of long-term investments	0	109184
revaluation of biological assets	-103 070	-82 838
Acruals (except acruals for doubtful debts)	-32 560	0
profit (-) or loss (+) from fluctuations of exchange rate	-52	1348
Interest income	0	
Income from finansation recognation	-91925	-16241
Interest expenditure	124054	293062
Profit or loss before the corrections of the impact of balance changes of current assets and short-term liabilities	**713 516**	**777 574**
increase (+) or decrease (-) of debtors debt	244 067	332 571
increase (+) or decrease (-) of the reserves of accruals	1 355 744	-437 476
increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors	1 075 365	2 126 481
Gross cash flow from basic activity	**3 388 692**	**2 799 150**
Expenditures to pay interest payments	-123 351	-293 062
Expenditures to pay company's income tax and immovable property tax	-16 957	-112 241
Net cash flow from basic activity	**3 248 384**	**2 393 847**
II. Cash flow from investments		
Income from selling fixed assets and intangible investments	15 112	18 739
Acquisition of fixed assets and intangible investments	-3 315 848	-545 900
Expenditures for advance payments for fixed assets and unfinished	-1 216 138	-1 469 402
Loans issued		
Interest received		
Net cash flow from investments	**-4 516 874**	**-1 996 563**
III. Cash flow from financing activities		
Recieved loans	-194 256	0
Recieved subsidies, donations or benefactions	481 896	490 746
Expenditures for paying back loans	1 043 466	-638 481
Expenditures for redemption of asset that was hired	-107 997	-180 764
Cash flow from financing activities	**1 223 109**	**-328 499**
IV. Fluctuations of exchange rate	**-48 038**	**9 479**
V. Net cash flow of the year of account increase (+), decrease (-)	**-93 419**	**78 264**
VI. Money and its equivalents balance at the beginning of the year of account	**98 445**	**20 181**
VII. Money and its equivalents balance at the end of the year of account	**5026**	**98 445**

The annex is an integral part of this financial statement

Board:

Jānis Bertrāns	Janis Mierkalns	Gundars Maurs	Gatis Zommers
Chairman of board	Vice-chairman	Member of board	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**	Share capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2009	**387 136**	**802 492**	**-116 904**	**1 987**	**2 623 085**	**-251 432**	**123 899**	**3 570 263**
Fluctuation of exchange rate			85 172			-6 078		79 094
Distribution of profit of the year 2009	0					123 904	-123 899	5
Profit of the year of account	0						-237 843	-237 843
2010. gada 31. decembrī	**387 136**	**802 492**	**-31 732**	**1 987**	**2 623 085**	**-133 607**	**-237 843**	**3 411 518**
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
2011. gada 31. decembris	**387 136**	**802 492**	**-36 663**	**1 987**	**2 623 085**	**-414 609**	**326 349**	**3 689 777**

	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**	Share capital
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31, 2009	**550 845**	**1 141 843**	**-166 339**	**2 827**	**3 732 314**	**-357 756**	**176 292**	**5 080 027**
Fluctuation of exchange rate			121 189			-8 648		112 541
Distribution of profit of the year 2009						176 300	-176 292	7
Profit of the year of account							-338 420	-338 420
2010. gada 31. decembrī	**550 845**	**1 141 843**	**-45 151**	**2 827**	**3 732 314**	**-190 106**	**-338 420**	**4 854 153**
Fluctuation of exchange rate			-7 016				0	-7 016
Distribution of profit of the year 2010						-399 830	338 420	-61 410
Profit of the year of account							464 353	464 353
2011. gada 31. decembris	**550 845**	**1 141 843**	**-52 167**	**2 827**	**3 732 314**	**-589 935**	**464 353**	**5 250 080**

Board:

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

Annex to the financial statement

1. Corporative information

Distributing risks between countries and fields of economic activity, at the end of 2005 and in 2006 JSC “Saldus mežrūpniecība” established new subsidiary companies in the Russian Federation, which main economic activity will be logging and production of sawn timber. In 2005, JSC “Saldus mežrūpniecība” purchased 100% shares of “Pakuļi Sports Centre” Ltd., which main activity is focused on sport and recreation with a sizeable immovable property, situated in a very favourable area.
As the result of the above mentioned activities JSC “Saldus mežrūpniecība” has prepared its year 2011 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.

	31.12.2010.	**31.12.2009.**
RUB	0.0170	0.0176
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 processing		Other		Total	
	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 LVL	31.12.2010 LVL
Net turnover	6 733 596	9 180 503	18 322 062	10 375 043	848 622	90 952	25 904 280	19 660 224
Production costs of sold products	-6 000 254	-7 839 875	-17 661 797	-10 425 538	-567 153	-296 133	-24 229 204	-18 602 346
Selling costs	-649 068	-763 257	-52 166	-14 949	-66 169	-39 839	-767 403	-841 396
General administration costs	-12 913	-4 336	-27 781	-4 958	-209 461	-183 604	-250 155	-230 221
Other incomes/expenditures from economic activity	-34 099	115 635	-141 395	87 357	3 459	-284 609	-172 035	-69 352
Segment profit	**37 262**	**688 670**	**438 923**	**16 955**	**9 298**	**-713 233**	**485 483**	**-83 091**
Financial expenditures, net	-7 762	-48 475	-67 592	-13 639	-183 841	-95 295	-259 195	-143 085
Company income tax (undistributable)					113 877	15 490	113 877	15 490
Other taxes			-5 176	-4 476	-8 640	-8 742	-13 816	-27 157
Net result	**29 500**	**640 195**	**366 155**	**-1 160**	**-69 306**	**-801 780**	**326 349**	**-237 843**
Segment assets	3 919 248	5 635 006	10 657 339	6 072 139	497 443	612 500	15 074 030	12 319 645
Segment liabilities	3 467 027	4 900 005	10 250 340	5 582 138	1 356 663	1 837 502	15 074 030	12 319 645

	Logging		Timber processing		Other		Total	
	31.12.2011 EUR	31.12.2010 EUR	31.12.2011 EUR	31.12.2010 EUR	31.12.2011 EUR	31.12.2010 EUR	31.12.2011 EUR	31.12.2010 EUR
Net turnover	9 581 044	13 062 679	26 069 946	14 762 356	1 207 480	129 413	36 858 470	27 973 979
Production costs of sold products	-8 537 592	-11 155 137	-25 130 473	-14 834 204	-806 986	-421 359	-34 475 051	-26 468 754
Selling costs	-923 541	-1 086 017	-74 226	-21 271	-94 150	-56 686	-1 091 916	-1 197 199
General administration costs	-18 374	-6 170	-39 529	-7 055	-298 036	-261 245	-355 938	-327 575
Other incomes/expenditures from economic activity	-48 519	164 534	-201 187	124 298	4 922	-404 962	-244 784	-98 679
Segment profit	**53 019**	**979 889**	**624 531**	**24 125**	**13 230**	**-1 014 839**	**690 780**	**-118 228**
Financial expenditures, net	-11 044	-68 974	-96 175	-19 407	-261 582	-135 593	-368 801	-203 592
Company income tax (undistributable)	0	0	0	0	162 032	22 040	162 032	22 040
Other taxes	0	0	-7 365	-6 369	-12 294	-12 439	-19 658	-38 641
Net result	**41 975**	**910 915**	**520 992**	**-1 651**	**-98 614**	**-1 140 830**	**464 353**	**-338 420**
Segment assets	5 576 587	8 017 891	15 164 028	8 639 875	707 798	871 509	21 448 412	17 529 276
Segment liabilities	4 933 135	6 972 079	14 584 920	7 942 667	1 930 357	2 614 530	21 448 412	17 529 276

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.

	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	EUR	EUR
Income from sales, int. AI.	24 441 003	18 763 744	34 776 414	26 698 402
Latvia	24 437 664	18 763 744	34 771 663	26 698 402
the EU countries				
Other countries	3 339		4 751	
Income from rendering of services, int. AI.	1 371 308	882 754	1 951 195	1 256 046
Latvia	1 371 308	882 754	1 951 195	1 256 046
the EU countries				
Other countries				
Financing of the EU structural funds	91 969		130 860	
	25 904 280	**19 646 498**	**36 858 470**	**27 954 448**

5. Production costs of sold products

	2011	2010	2011	2010
	LVL	LVL	EUR	EUR
Production cost of products sold				
Salary of employees	1 506 476	1 273 033	2 143 522	1 811 363
Doubtful debtors reserve	21 809	198 526	31 031	282 477
Depreciation of property, plant and equipment	660 955	511 100	940 454	727 230
Costs of purchase of materials	15 197 147	7 815 418	21 623 592	11 120 338
Stem fee (purchase of cutting rights)	3 271 910	3 206 593	4 655 509	4 562 571
Electricity and heating costs	286 246	170 293	407 291	242 305
Production related contractors expenses	1 742 979	4 760 728	2 480 036	6 773 906
Production equipment maintenance costs	1 495 974	620 717	2 128 579	883 201
Othger services received	45 708	45 938	65 037	65 364
	24 229 204	**18 602 346**	**34 475 051**	**26 468 754**

6. Selling costs

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Adevrtisement costs, market research, marketing	15 761	39 882	22 426	56 747
Transportation costs of goods	663 466	718 942	944 027	1 022 962
Salary of employees	14 482	2 352		
Other production costs	73 694	80 220	104 857	114 143
	767 403	**841 396**	**1 071 310**	**1 193 852**

7. General and administration costs

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Salaries to employees	106 570	96 069	151 635	136 694
Maintenance of administration capital assets	48 470	50 613	68 967	72 016
Expense assosciated with maintenance of administration	38 756	33 799	55 145	48 092
Office maintenance costs	41 362	37 963	58 853	54 016
Annual report expenses	2 600	1 500	3 699	2 134
Banking expenses	12 397	10 277	17 639	14 623
	250 155	**230 221**	**355 938**	**327 575**

8. Other income from economic activity

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Other income				
Income from services	2 713	273695	3 860	389 433
Income from minimization of doubtful debt reserve	115 230	0	163 958	0
Net income from sale of logng term investment	102 066	15 191	145 227	21 615
Income from lease of fixed assets	93 726	85 143	133 360	121 148
Financing of the EU structural funds and LAD	19 487	16 241	27 728	23 109
Other income	0	32 511	0	46 259
	333 222	**422 781**	**474 132**	**601 563**
Other expense			0	0
Net loss from exclusion of long term investment	729	3 983	1 037	5 667
Net loss from revaluation of long term investment	0	109 166	0	155 329
Dues paid for land plots used in production	31 416	31 832	44 701	45 293
Security costs	265 455	0	377 708	0
Personnal training costs (EU project)	24 570	0	34 960	0
Other expense for provision of economic activities	183 087	347 152	260 509	493 953
	505 257	**492 133**	**718 916**	**700 242**

9. Staff costs

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Average number of employees	**195**	**147**		
Total personnel costs				
Wages (other legislation)	36 102	14 465	51 369	20 582
Wages	1 243 708	1 094 192	1 769 637	1 556 895
Social tax	298 036	262 797	424 067	373 926
	1 577 846	**1 371 454**	**2 245 073**	**1 951 403**
including:				
wages of production workers (other legislation)	14 482	2 352	20 606	3 347
wages of production workers	1 176 997	1 028 904	1 674 716	1 463 998
Social tax	282 418	247 047	401 845	351 516
	1 473 897	**1 278 303**	**2 097 166**	**1 818 861**
administration wages (other legislation)	21 620	12 113	30 762	17 235
administration wages	53 691	65 288	76 396	92 896
Social tax	12 958	15 750	18 437	22 410
	88 269	**93 151**	**125 595**	**132 542**
incl. remuneration to company management - board	13 020	15 650	18 526	22 268
Social tax	2 657	3 767	3 781	5 360
Unemployment risk due	3	3	4	4
	70 976	**19 420**	**100 989**	**27 632**

10. Other costs of economic activity

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Income				
Income from currency exchange	0	175 302	0	249 432
Donations	545	0	775	0
Other income	17 793	41	25 317	58
	18 338	**175 343**	**26 093**	**249 491**
Expense				
Currency exchange expense	104 813	145 369	149 135	206 841
Donations	300	9 100	427	12 948
Fines paid	6 157	8 222	8 761	11 699
Other expense	18 090	30 963	25 740	44 056
Loan interest calculated	133 300	118 346	189 669	168 391
Financial lease interest recognised	14 873	6 428	21 162	9 146
	277 533	**318 428**	**394 894**	**453 082**

11. Company income tax

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Current corporate income tax charge for the reporting year	0	0	0	0
Deferred corporate income tax	113 877	15 490	162 032	22 040
	113 877	**15 490**	**162 032**	**22 040**

Deferred company income tax:

	2011 LVL	2010 LVL	2011 EUR	2010 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)	-5 559 340	2 834 400	-7 910 228	4 032 988
Residual value of capital assets needed for taxes	4 484 996	1 859 430	6 381 574	2 645 731
Tax losses not covered	1 154 243	263 123	1 642 340	374 390
Accruals for holidays	86 987	119 527	123 771	170 072
Temporary difference	11 285 566	592 320	16 057 914	842 795
Liabilities of deferred tax	**25 030**	**-88 848**	**35 614**	**-126 419**
Assets of deferred tax	**113 877**	**15 490**	**162 032**	**22 040**

To calculate the rate of deferred tax 15 % rate is applicable.

12. Other taxes

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Real estate tax	13 816	27 157	19 658	38 641
	13 816	**27 157**	**19 658**	**38 641**

12. Intangible investments

		Software	**Total**
		LVL	LVL
As at 31.12.2010.		**82086**	**82086**
2011	Cost	424	424
	Impairment	-306	-306
As at 31.12.2011.		**81275**	**81275**
Amortisation accrued 31.12.2010.		**47884**	**47884**
2011	Amortisation	13330	13330
	Impairment	-216	-216
Amortisation accrued 31.12.2011.		**60628**	**60628**
As at 31.12.2010.		**34202**	**34202**
As at 31.12.2011.		**20647**	**20647**
Amortisation rate (by linear method)		5 gadi	

		EUR	EUR
As at 31.12.2010.		**116798**	**116798**
2011	Cost	603	603
	Impairment	- 436	- 436
As at 31.12.2011.		**115643**	**115643**
Amortisation accrued 31.12.2010.		**68133**	**68133**
2011	Amortisation	18967	18967
	Impairment	-307	-307
Amortisation accrued 31.12.2011.		**86265**	**86265**
As at 31.12.2010.		**48665**	**48665**
As at 31.12.2011.		**29378**	**29378**
Amortisation rate (by linear method)		5 gadi	

Advance payments for intangible investments are due because of the development of accounting program. Decrease is written off accured costs due for the development of accounting program.

14. 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 31.12.2010.		**3 505 651**	**3 201 275**	**73 565**	**1 458 255**	**1 405 810**	**9 644 557**
2011	Purchase	65 945	178 536	47 011	386 463	3 977 875	4 655 830
	Liquidity	0	-75 900	-4 134	0	0	-80 034
	Reconstruction	1 260 580	2 366 419	0	-1 603 568	-2 047 986	-24 554
	Fluctuations of exchange rate	336	-3 419	-81	-13 202	0	-16 366
Accounting value 31.12.2011.		**4 832 512**	**5 666 911**	**116 361**	**227 948**	**3 335 699**	**14 179 432**
Accured wear and tear 31.12.2010.		**670 440**	**1 965 129**	**55 097**	**0**	**0**	**2 690 667**
2011	Wear and tear	106 830	552 393	12 774	0	0	671 997
	Wear and tear of liquid assets	0	-70 410	-2 767	0	0	-73 177
	Fluctuations of exchange rate	-783	-1 363	-75	0	0	-2 221
Accured wear and tear 31.12.2011.		**776 487**	**2 445 749**	**65 029**	**0**	**0**	**3 287 265**
Residual value 31.12.2010.		**2 835 210**	**1 236 146**	**18 468**	**1 458 255**	**1 405 810**	**6 953 889**
Residual value 31.12.2011.		**4 056 025**	**3 221 163**	**51 333**	**227 948**	**3 335 699**	**10 892 168**

Rate of wear and tear (linear method)		5-20 year	4-10 year	3-10 year			
		EUR	EUR	EUR	EUR	EUR	EUR
Accounting value 31.12.2010.		**4 988 092**	**4 555 004**	**104 674**	**2 074 910**	**2 000 287**	**13 722 968**
2011	Purchase	93 831	254 034	66 891	549 887	5 660 006	6 624 649
	Liquidity	0	-107 996	-5 882	0	0	-113 878
	Reconstruction	1 793 644	3 367 111	0	-2 281 672	-2 914 022	-34 938
	Fluctuations of exchange rate	0	0	0	0	0	0
Accounting value 31.12.2011.		**6 876 045**	**8 063 289**	**165 567**	**324 341**	**4 746 272**	**20 175 514**
Accured wear and tear 31.12.2010.		**953 950**	**2 796 127**	**78 396**	**0**	**0**	**3 828 474**
2011	Wear and tear	152 005	785 984	18 176	0	0	956 165
	Wear and tear of liquid assets	0	-100 185	-3 937	0	0	-104 122
	Fluctuations of exchange rate	0	0	0	0	0	0
Accured wear and tear 31.12.2011.		**1 104 842**	**3 479 987**	**92 528**	**0**	**0**	**4 677 356**
Residual value 31.12.2010.		**4 034 140**	**1 758 877**	**26 278**	**2 074 910**	**2 000 287**	**9 894 493**
Residual value 31.12.2011.		**5 771 204**	**4 583 302**	**73 040**	**324 341**	**4 746 272**	**15 498 159**

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 432 998 Ls (616 101 EUR) .

Cadastral value of lands at the balance date amounts to 354 808 Ls (504 846 EUR).

Unfinished construction and advance payments for capital assets

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Unfinished constructions Russia	60 967	543 342	86 748	773 106
Unfinished constructions Pakuļu sporta bāze SIA	78 872	78 872	112 225	112 225
Unfinished constructions Saldus mežrūpniecība AS	88 109	836 041	125 368	1 189 579
	227 948	**1 458 255**	**324 341**	**2 074 910**
Advanced payment for fixed assets Saldus mežrūpniecība AS	3 335 699	1 405 810	4 746 272	2 000 287

15. Reserves

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Materiāli, rezerves daļas, inventārs	175 916	245 536	250 306	349 366
Bioloģiskie aktīvi	399 707	337 995	568 732	480 924
Nepabeigtie ražojumi (apaļkoki mežā un zāģētavā)	1 005 523	2 326 223	1 430 730	3 309 917
Zāģmateriāli ražošanā	242 892	517 420	345 604	736 222
kopā nepabeigtā ražošana:	**1 248 415**	**2 843 643**	**1 776 335**	**4 046 139**
Gatavie ražojumi zāgmateriāli	612 075	155 876	870 904	221 792
Preces mazumtirdzniecības veikalā	0	35 333	0	50 274
kopā gatavie ražojumi un preces pārdošanai	**612 075**	**191 209**	**870 904**	**272 066**
Avansa maksājumi par precēm	35 235	123 085	50 135	175 134

In the Holding on 31.12.2011. was carried out inventory and non-marketable stocks were not established.

16. Trade receivables

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Accounting value of trade receivables	446 158	423 437	634 826	602 497
Doubtful debt reserve (-)	146 101	143 486	207 883	204 162
Accounting value	300 057	279 951	426 942	398 334

Residuals of debtors debts in the balance sheet are shown in their net value except for the reserves for doubtful debts in the amount of 21 883 LVL (31 137 EUR) which were established from the accounting value of these debts. Reserves for insecure debts were made on the bases of estimation of the financial situation and economic activity of some of the customers by taking into consideration the debt repayment in compliance with the concluded agreement and possibility of recovery. Reserves are made for the debtors who 2 years in turn

have not responded to collation acts and can not be found in their given addresses and for the debtors against whom there has been started the procedure of insolvency (reference from the CR).

17.Other debtors

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Surplus VAT payment	27 819	21 207	39 583	30 175
VAT paid in advance on boarder	441	470	627	669
Guarantee payments made	2 978	2 620	4 237	3 728
Loans to employees	1 752	1 752	2 493	2 493
Other debtors	88 579	88 154	126 037	125 432
In total other debtors	**121 568**	**114 203**	**172 977**	**162 6**

18.Expenditures of the next periods

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Insurance	9 391	23 213	13 362	33 029
Licence fees	526	457	748	650
Other	233 791	280 423	332 655	399 006
In total expenditure of the next periods	**243 708**	**304 093**	**346 765**	**432 5**

19.Money and its equivalents

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Money in accounts	5 026	98 375	7 151	139 975
Money in cash	0	70	0	100
Money total	**5 026**	**98 445**	**7 151**	**140 075**

20. Share capital, reserves and profit per share

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

	%	2011 LVL	2011 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**
	31.12.2010		387136	550 845
	31.12.2011		387 136	550 845

			0.15	0.702804
	2011	**2010**	**2011**	**2010**
	LVL	LVL	EUR	EUR
Profit of the period of account	326 349	-237 843	464 353	-338 420
Number of shares 31.12.2011	387 136	387 136	550 845	550 845
Basic profit per share per year	**0.84**	**-0.61**	**1.20**	**-0.87**

*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 326 349 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.

21. Loans from credit institutions

	% rate in force	The repayment term	**2 011 LVL**	**2 010 LVL**	**2 011 EUR**	**2010 EUR**
Long-term:						
A/s Swedbank	3 mon.Euribor + %	1 year or more	47 314	72 481	67 322	103 131
A/s Swedbank	3 mon.Euribor + %	1 year or more	215 960	254 697	307 283	362 400
A/s Nordea banka creditline	The Base rate EONIA +	1 year or more	2 099 615	0	2 987 483	0
A/s Nordea banka creditline	The Base rate EONIA +	1 year or more	1 056 671	0	1 503 507	0
A/s Nordea banka	3 mon.Euribor + %	1 year or more	453 718	539 460	645 583	767583
A/s Nordea banka	3 mon.Euribor + %	1 year or more	236 222	280 850	336 114	399614
			4 109 500	**1 147 488**	**5 847 292**	**1 632 728**
Short-term:						
A/s Swedbank	3 mon.Euribor + %	līdz 12 mēn.	12 652	12 634	18 002	17 977
A/s Nordea banka creditline	The Base rate EONIA +	līdz 12 mēn.	0	2 112 820	0	3006271
A/s Nordea banka	3 mon.Euribor + %	līdz 12 mēn.	85 742	85 742	122 000	122000
A/s Nordea banka	3 mon.Euribor + %	līdz 12 mēn.	44 628	44 628	63 500	63500

	143 022	**2 255 824**	**203 502**	**3 209 748**
Pavisam	**4 252 522**	**3 403 312**	**6 050 794**	**4 842 476**

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

22. Liabilities of financial lease and other loans

	% rate in force	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Long-term:					
SIA Hanza līzings	3 mon. Euribor+%	6 224	77 145	8 856	109 767
SIA Nordea Līzings	Fixed rate	1 191	6 906	1 695	9 826
		7 415	**84 051**	**10 551**	**119 594**
Short-term:					
SIA Hanza līzings	3 mon. Euribor+%	70 922	127 423	100 913	181 307
SIA Nordea Līzings	Fixed rate	5 715	10 776	8 131	15 333
Willenbrock Baltic UAB		54 150	0	77 048	0
		130 786	**138 199**	**186 092**	**196 639**
Total		**138 201**	**222 250**	**196 643**	**316 233**

Loan agreement liabilities refer to loan agreements of four motor vehicles starting from 2007, with final payment period at April 1, 2013. Accounting value of cars used in financial lease is set at 49 814 LVL. 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 227 900 LVL.

23. Taxes payable

	31.12.2010	Paid in 2011	Calculated in 2011	Fine	Taxes recognized as other taxes	31.12.2011
	LVL	LVL	LVL	LVL	LVL	LVL
Company Income Tax(Adjustment)	115845	14286	0	0	-105015	25116
VAT	21204	0	81774	0	-89972	13006
VAT on the boarder	470	0	0	0	-29	441
Peoples Income Tax	-63632	212916	-275004	-4162	60800	-69082
Compulsory Payments of Social Insurance Tax	-29753	286278	-456747	-321	134216	-66327
Natural Resources Tax	-95	100	-441	-2	0	-438
Property Tax	0	11886	-13662	-85	0	-1861
Risk due	-16	541	-565	-1	0	-41
Total	-2971	22372	-32575			-7254

Debt on taxes	**46972**	**548379**	**-697220**	**-4571**	**0**	**-106440**
Overpayd taxes	**-96467**					**-145003**
Company Income Tax(Adjustment)	**140468**					**38563**

	31.12.2010	**Paid in 2011**	**Calculated in 2011**	**Fine**	**Taxes recognized as other taxes**	**31.12.2011**
	EUR	EUR	EUR	EUR	EUR	EUR
Company Income Tax(Adjustment)	164833	20327	0	0	-149423	35737
VAT	30171	0	116354	0	-128019	18506
VAT on the boarder	669	0	0	0	-41	627
Peoples Income Tax	-90540	302952	-391295	-5922	86511	-98295
Compulsory Payments of Social Insurance Tax	-42335	407337	-649892	-457	190972	-94375
Natural Resources Tax	-135	142	-627	-3	0	-623
Property Tax	0	16912	-19439	-121	0	-2648
Risk due	-23	770	-804	-1	0	-58
Total	-4227	31832	-46350	0	0	-10322
Debt on taxes	**66835**	**780273**	**-992055**	**-6504**	**0**	**-151450**
Overpayd taxes	**-133033**					**-206321**
Company Income Tax(Adjustment)	**199868**					**54870**

In compliance with the law on taxes in force in the Republic of Latvia, Company Income Tax is paid in advance. Consequently, after a year of account, when the due tax is calculated, the due tax or surplus payment is established.

24. Other liabilities

	2011	**2010**	**2011**	**2010**
	LVL	LVL	EUR	EUR
Salary payments	63 298	58 829	90 065	83 706
Contributions to private pension funds	2 138	2 138	3 042	3 042
Payments for deductions from wages	806	490	1 147	697
Advance payments to empyees	126	145	179	206
Other creditors	933 610	6 700	1 328 408	9 533
	999 978	**68 302**	**1 422 841**	**97 185**

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

25. Accrued liabilities

	2011	**2010**	**2011**	**2010**
	LVL	LVL	EUR	EUR
Accrued for holidays	86 967	119 527	123 743	170 072
	86 967	**119 527**	**123 743**	**170 072**

26. Liabilities provisions

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Debets to supliers	50 017	17 041	71 168	24 247
	50 017	**17 041**	**71 168**	**24 47**

27. Incomes from the next periods

	2011 LVL	2010 LVL	2011 EUR	2010 EUR
Long-term:				
Project No. 124000041	23 440	34 693	33 352	49 364
Project No..04/415034/0002/023	9 966	14 954	14 180	21 278
Project No.L-APV-10-0015	731 155	490 746	1 040 340	698 269
	764 561	**540 393**	**1 087 872**	**768 910**
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	165 759	0	235 854	0
Other income	44		63	
	182 044	**16 241**	**259 025**	**23 09**

28. Transactions with associated persons

Subsidiary	Type of transaction		Income from subsidiaries		Payments to subsidiaries		Debts to subsidiaries		Credits to subsidiaries	
			LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
OOO Saldus	debt and sales of ready production	2010	0	0	15 800	22 481	124 286	176 843	0	0
		2011	272	387	0	0	124 558	177 230	0	0
OOO DOK Nr.3	debt and sales of ready production	2010	0	0	95 226	135 494	706 621	1 005 431	0	0
		2011	18 854	26 827	102 087	145 257	827 562	1 177 515	0	0
SIA Pakuļu sporta bāze	debt and sales of ready production	2010	290	413	15 058	21 426	124 881	177 690	0	0
		2011	6 624	9 425	14 623	20 807	139 504	198 496	0	0
SIA SEZ Laskana	debt and sales of ready production	2010	0	0	0	0	0	0	0	0
		2011	5 174	7 362	0	0	384	546	0	0

SIA Saldus MRU	debt and sales of ready production	2010	66 298	94 334	0	0	1 428	2 032	126 406	179 860
		2011	73 739	104 921	286 714	407 957	9 992	14 217	6 030	8 580
		2010	**66 588**	**94 746**	**126 084**	**179 401**	**957 216**	**1 361 996**	**126 406**	**179 860**
		2011	**104 663**	**148 922**	**403 424**	**574 021**	**1 102 000**	**1 568 005**	**6 030**	**8 580**

29. 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.al. unplanned taxes and decreased ecological risks in all objects.

30. 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 posses 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, 2009 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 and loans granted by the bank and its parent company, by planning terms of paying back loans, by establishing and analyzing cash flows of the next periods arising from existing and planned loans and interest fees due. The system on how to prepare the Holding's budget is very useful and helpful in the process of management and control of liquidity risks.

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.

31. 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.

32. Error correction / Accounting politic change

In year 2011 the company has found mistakes, wich took place in year 2010.

Balance sheet	31.12.2010	Retrospective corrections on 2010. gadu	31.12.2010
Assets/Lieabilities	**corrections**		**Before corrections**
Increasing of goodwill	201 034	178 200	22 834
Decreasing of foreigen currency fluctuations	-31 732	-16 826	-48 558
Increasing of advanced payments from buyers and customers	276 499	-161 374	115 125
Net impact	**445 801**	**0**	**89 401**

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 consolidated financial statements of AS Saldus mežrūpniecība (the Parent Company) and its subsidiaries (hereinafter – the Group), set out on pages 6 to 30 of the accompanying 2011 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of 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 of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated management report for the year ended 31 December 2011 (set out on page 4 of the accompanying 2011 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2011.

Zvērinātas revidentes S.Koļesņikovas birojs SIA
Audit company licence No. 127
Svetlana Koļesņikova
Certified auditor
Certificate No. 22
Member of the Board

ZVĒRINĀTAS REVIDENTES S.KOĻESŅIKOVAS BIROJS SIA

Riga,
30. April 2012