

**JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”**

(SINGLE REGISTRATION NUMBER 40003020121)

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

PREPARED IN ACCORDANCE WITH

THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS

**Saldus, 2015**

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## Information about the Company

Name of the Company	<b>Saldus Timber Wood Industry (Saldus mežrūpniecība)</b>
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus novads, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns ( <i>Jānis Bertrāns</i> ) – Chancellor of the Board Janis Mierkalns ( <i>Jānis Mierkalns</i> ) – member of the Board Gatis Zommers ( <i>Gatis Zommers</i> ) – member of the Board
Members of the Council: name, surname, position	Uldis Mierkalns ( <i>Uldis Mierkalns</i> ) – Chairman of the Council Lolita Burkovska ( <i>Lolita Burkovska</i> ) – Deputy Chairman of the Board Maris Elleris ( <i>Māris Elleris</i> ) – member of the Council Janis Leimanis ( <i>Jānis Leimanis</i> ) – member of the Council Martins Knipšis ( <i>Mārtiņš Knipšis</i> ) – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – June 30, 2015
2. Name of the company	Woodworking Centre No.3 ( <i>Деревообрабатывающий комбинат № 3</i> ) (100%)
Legal status of the company	Limited Liability Company
Registration number, date, place	( <i>ООО - Общество с ограниченной ответственностью</i> ) 1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – June 30, 2015
3. Name of the company	Saldus ( <i>Салдус</i> ) (100%)
Legal status of the company	Limited Liability Company
Registration number, date, place	( <i>ООО - Общество с ограниченной ответственностью</i> ) 1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – June 30, 2015
Name and address of the Auditor	Svetlana Koļesņikova Sworn Auditor (Certificate of Latvian Sworn Auditor No.22)

## Management announcement

### *To Report of economic activity for the 6 month of 2015*

#### **Business description in the framework of report period**

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

Loss of A/s „Saldus mežrūpniecība” for the 2015 first 6 months are 830 745 EUR at the net turnover of 21 067 623 EUR, which means loss on one share issued of 2.15 EUR.

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

#### **Forecasts for financial statements and operational plans of 2015**

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

#### **Business and financial risk management policy**

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

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

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

August 31, 2015

Board:

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Jānis Bertrāns  
Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

## Statement of Management Responsibility

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

The Management confirms that, in preparing this report for the period ending on 30 June 2015, proper accounting methods were used, their application was consistent, reasonable and prudent decisions were taken. The Management confirms that the relevant International Accounting Standards have been observed and the financial statements have been prepared in accordance with the principle of continuation. The Management is responsible for keeping proper accounting records, the company's resources conservation as well as fraud prevention and prevention of other irregularities.

August 31, 2015

Board:

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Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

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## Profit or loss calculation

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

The annex is an integral part of this financial statement

August 31, 2015

Board:

Jānis Bertrāns  
Chancellor of the Board

Jānis Mierkalns  
member of the Board

Gatis Zommers  
member of the Board

**Balance sheet****ASSETS**

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

The annex is an integral part of this financial statement.

August 31, 2015

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member of the Board

## Balance sheet (continuation)

### LIABILITIES

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

The annex is an integral part of this financial statement

August 31, 2015

Board:

Jānis Bertrāns  
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Gatis Zommers  
member of the Board



**Cash flow statement**

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

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

The annex is an integral part of this financial statement

August 31, 2015

Board:

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## Statement on the changes in own capital

The annex is an integral part of this financial statement

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

August 31, 2015

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## Annex to the financial statement

### 1. Corporative information

The joint stock company „Saldus mežrūpniecība” (hereinafter - the Company) was registered with the Republic of Latvia Enterprise Register on 26 August 1991 and with the Republic of Latvia Commercial Register on 8 May 2004. Company main economic activity will be logging and production of sawn timber.

### 2. Important accounting principles

#### *Basis of preparation*

The financial statements present only the financial position of JSC „Saldus mežrūpniecība” as a stand-alone entity; the financial position of companies belonging to the JSC „Saldus mežrūpniecība Group (i.e. JSC „Saldus mežrūpniecība and its subsidiaries) is presented in a separate set of consolidated financial statements.

The financial statements of JSC „Saldus mežrūpniecība have been prepared in accordance with the Law on Accounting and Law on Annual Reports of the Republic of Latvia.

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

#### *Use of calculations (continuation)*

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

#### *Decrease of the value of assets*

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

#### *Currency unit and Foreign currency translation*

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

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

#### *Intangible investment*

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

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

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

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

### **Property, plant and equipment**

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

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable value. As possible certified valuers have performed revaluation of the property, plant and equipment by applying the depreciated replacement cost model.

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

In accordance with the accounting policies - land of forests are valued using the revaluation method. A plot shall be performed on a regular basis depending on changes in value. If the asset (the land of forests), the revalued value is not significantly different from its balance sheets value, they are revalued every five years by ordering evaluation to the certified forests assessor. In case of radical changes in the real estate market valuation may be ordered more frequently. Last evaluation is made on 29.04.2014.

### **Biological assets**

In 2008 the company management decided to change accountancy policies for forest stands, complying with IAS 41 Agriculture. According to the new accountancy policy the forest stands are evaluated as biologic assets. The evaluation is based on the actual data from the State Forest Service (SFS). The forest stands are initially accounted at their purchase value, but after the first development the remaining part of the forest stand is accounted at its fair value. The fair value is determined by calculating the net present value of the cash flows from the biologic assets at 2015 applying discount rate of 6%. The felling area's cubic meter average purchasing price is set to be the average felling area's cubic meter price during 2015. The difference between the accounting value and the value established in reevaluation is recognized as income or outcome during the accounting period, depending whether the value has increased or decreased during the reevaluation. It appears in the profit and loss account as net turnaround or production costs of sales. Biologic assets which development are not possible in one year time are shown in the balance sheet as long-term investments (held with intention for sale) or as non-current assets.

### **Investments in subsidiaries**

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances

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indicate that the carrying value may not be recoverable. The Company recognises income from the investment only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment

### **Reserves**

#### *Unfinished products*

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

*Raw materials are accounted in their purchase costs.*

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

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

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

### **Debts of buyers and customers**

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

### **Cash and cash equivalents**

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

### **Accruals**

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

### **Credits and loans**

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

### **Property revaluation surplus**

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

### **Deferred income**

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

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### **Lease**

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

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

### **Income recognition**

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

#### *Rendering of services*

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

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

#### *Sale of goods*

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

#### *Interest*

Interest is recognised according to savings method.

#### *Dividends*

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

#### *Income from lease*

### **Corporate income tax**

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

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

### **Associated persons**

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

### **Possible liabilities and assets**

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

### Share capital

Company is a joint stock company. Company share capital is EUR 541 990. And consist of 387 136 public bearer shares. All shares are denominated and are dematerialised registered shares.

### Accruals and deferred liabilities

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

### Events after the end of the year of account

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

### 3. Segments of the Holding activities

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

The Holding shows information through particular segments.

The above table shows the Holding's profit or loss posts and the distribution of assets and liabilities through segments:

The management of the Holding believe that it is not useful to prepare cash flow statements through different segments.

Segment descriptions:

#### Logging

Income in this segment mainly arises from selling of round timber, obtained in logging, and timber transportation in the territory of Latvia and from the income from logging services.

#### Timber processing

Income in this segment mainly arises from selling of sawn timber which was obtained in the production process and from rendering of different services which are related to timber processing.

*Other*

Collected lease payments for the use of the company's real estate and other income which is not related to the company's economic activity.

#### 4. Net turnover through geographical segments

Since the economic activity of the Holding is mainly performed in Latvia and all significant assets are situated in Latvia, the management believe that it is not useful to prepare a statement through geographical segments as the amount of income from different geographical segments does not exceed 10 % of total income.

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