

AS “TALSU MEŽRŪPNIECĪBA”

(REGISTRATION NUMBER 40003113243)

**ANNUAL REPORT FOR 6 MONTH
OF THE YEAR 2014**

2014, Stende

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General information

Company name	A/s „Talsu Mežrūpniecība”
Legal Status	Joint stock company
Registration number, time and place	40003113243, Riga January 29, 1993
Legal address	Eksporta Street 26, Tukums, LV- 3104
Address of the executive bodies	Dumpīšu Street 3, Stende, LV – 3257
Shareholders	All Company shares are book-entry shares. Public placement at LCD – 230,000 shares are bearer Closed issue - 265,699 shares are registered shares
Board	Gatis Štāks , chairman of the Board Roja district, Parish Roja, Valgalciems, “Birzītes” Pēteris Klava , member of the Board Talsi district, Parish Libagi, “Veikals” Andis Gribusts , member of the Board Talsi district, Parish Lauciene, „Dzelzkalēji”.
Supervisory Board	Oskars Derings , Chairman of the Supervisory Board, Talsi, Rīgas Street 3-13 Eva Dēringa , member of the Supervisory Board Talsi, Rīgas Street 3-13 Alda Kiore , member of the Supervisory Board Talsi district, Stende, Robezu Street 4. Asmeralda Kļava , member of the Supervisory Board Talsi district, Parish Abava, „Vītiņi”. Gita Emerberga , member of the Supervisory Board Kaltene, Rojas district, “Foreles-3”.
Period	01.01.2014.-30.06.2014.
Audithor	Daiga Baraua , sworn audithor, No. Sertificate 89, “Lejaskalēji”, Parish Valdgale, Talsi district, LV-3253 Latvia

MANAGEMENT REPORT

The main activities of the Company in 2014 were logging and production of timber products: peeled and turn poles production in timber processing unit.

During 6 month 2014 8405 m³ pales were produced in the timber processing unit and woodchips of 16 144 m³ were sold.

Total revenues for the Company during 6 month 2014 were EUR 1 388 722. Revenues from access EUR 18000,-

The result for 6 month 2014 is profit EUR 100 313 which corresponds to EUR 0.202 profit per share.

In the future the Company plans to continue the production of peeled and turn poles, increasing the proportion of timber purchased from small logging companies and private loggers, whose price offering is lower than that of VAS Latvijas valsts meži. It is also planned to sell the produced goods to a wider network of clients, achieving the most beneficial sales price.

Suggestions for distribution of profit and covering of losses

The profit for the year will cover losses of the previous periods.

Board:

Gatis Štāks
Chairman of the Board

Pēteris Kļava
Member of the Board

Andis Gribusts
Member of the Board

July 15, 2014

JSC “Talsu mežrūpniecība”
Financials statement for 6 month
of the year 2014

JSC “TALSU MEŽRŪPNIECĪBA”

DECLARATION

on the responsibility of Management

JSC “Talsu mežrūpniecība” is responsible for the preparation of the financial report of the company.

The Financial report for 6 month of the year of 2014 of JSC “Talsu mežrūpniecība” is prepared, basing on the source documents and provides clear and true view on the financial standing of the Company as of June 30, 2014, its financial results in 6 moth of the year 2014 and the cash flow.

The Financial Report has been prepared in accordance with the Laws being in force and with the book-keeping standarts of the Republic of Latvia, basing upon the principle of continuation of entrepreneurship. During the reporting year the appropriate accounting methods have been consequently applied.

JSC “Talsu mežrūpniecība” is responsible for the provision of appropriate accounting, preservation of company’s assets, as well as for detection and averting of violations.

Chairman of Board

G.Štāks

Profit and Loss Statement

		2014	2013
	Note	EUR	EUR
Revenues	2	1 388 722	917 391
Cost of goods sold	3	(1 268 189)	(864 356)
Gross result		120 533	53 035
Administration expenses	4	(29 122)	(27 336)
Other operating income	5	18 579	10 939
Other operating expenses	6	(7 117)	(6 107)
Financial income	7	429	8
Financial expenses	8	(1 746)	(3 819)
Profit (loss) before taxes		101 556	26 720
Deferred corporate income tax	9; 18	-	-
Other taxes	17	(1 243)	(1 588)
Net profit (loss)		100 313	25 132

Notes on pages 11 to 19 are integral part of the financial statements

Board:

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July 15, 2014

Balance Sheet

ASSETS		30.06.2014.	30.06.2013.
	Note	EUR	EUR
LONG TERM ASSETS			
Fixed assets			
Land, buildings and constructions		123 558	130 531
Machinery and equipments		184 047	175 560
Other fixed assets		63 275	75 156
Leasing		185 680	50 943
TOTAL	10	556 560	432 190
TOTAL LONG TERM ASSETS		556 560	432 190
CURRENT ASSETS			
Inventories			
Materials		10 641	9 899
Production in progress		6 390	41 359
Goods for sale		33 090	181 170
Advances for goods		6 403	6 403
TOTAL		56 524	238 831
Debtors			
Trade receivables, net	11	198 451	92 125
Other debtors	12	3 392	22 416
Prepaid expenses		3 278	4 024
TOTAL		205 121	118 565
Cash and cash equivalents		179 860	16 273
TOTAL CURRENT ASSETS		441 505	373 669
TOTAL ASSETS		998 065	804 345

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AS „TALSU MEŽRŪPNIECĪBA”
ANNUAL REPORT OF 6 MONTHS OF THE YEAR 2014

EQUITY AND LIABILITIES

				30.06.2014.	30.06.2013
EQUITY	Piezīme			EUR	EUR
Share capital	13			705 316	705 316
Retained earnings				-	-
Prior year loss				(165 432)	(197 950)
Current year profit (loss)				100 313	25 132
Total equity				640 197	532 496
Provisions					
Other provisions	14			18 792	9 335
TOTAL PROVISIONS				18 792	9 335
LIABILITIES					
Long term liabilities					
Loans from credit institutions	16			93 179	26 145
Other loans	16				37 350
Deferred tax liabilities	18			25 339	25 302
TOTAL				118 518	88 797
Short term liabilities					
Other loans	16			14 914	4 721
Loans from credit institutions	16			30 947	6 403
Advances from customers				-	-
Liabilities for other customers				140 839	126 076
Taxes and social security payment	17			12 693	17 218
Other creditors				17 496	16 305
Occrued liabilities	15			3 669	2 992
TOTAL				220 558	173 715
TOTAL LIABILITIES				339 076	262 512
TOTAL EQUITY AND LIABILITIES				998 065	804 345

Notes on pages 11 to 19 are integral part of the financial statements

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July 15, 2014

Equity Statement

EUR	Share capital	Prior period loss	Current period profit (loss)	Total
January 1, 2013	705 316	(242 718)	44 768	507 366
Transferred to prior period losses	-	44 768	(44 768)	-
Current period loss	-	-	25 132	25 132
June 30, 2013	705 316	(197 950)	25 132	532 498
Transferred to prior period losses	-	25 132	(17 746)	7 386
Current period profit	-	-	100 313	100 313
June 30, 2014	705 316	(172 818)	107 699	640 197

Notes on pages 11 to 19 are integral part of the financial statements.

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July 15, 2014

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Cash Flow Statement (prepared based on indirect method)

	2014	2013
	EUR	EUR
Operating cash flow		
Profit (loss) before taxes	101 556	26 720
Adjustments:		
Depreciation	27 488	30 454
Interest (income)/expenses	1 317	(3 819)
Increases/(decrease) in provisions	9 457	(4 519)
Asset write offs		
(Profit)/loss from sale of fixed assets		
Revaluation of biological assets		
(profit)/loss from currency fluctuations		
Operating cash flow before changes in current assets	139 818	48 836
Decrease/(increase) of inventories	182 307	(22 673)
Decrease/(increase) of debtors	(86 556)	1 409
Increases/(decrease) in creditors	97 053	(86 842)
Operating cash flow	332 622	59 270
Interest paid		
Corporate income tax paid		(6 639)
Real estate tax paid	(1 243)	(1 588)
Net operating cash flow	331 379	(67 497)
Cash flow from investing activities		
Acquisition of long term assets	(163 623)	(53 999)
Income from sale of fixed assets	18 000	20 105
Net cash flow from investing activities	(145 623)	(33 894)
Cash flow from financing activities		
Loans(paid), net	(22 169)	(32 284)
Loans received, net	-	11 723
Net financing cash flow	(22 169)	(20 561)
Cash increase/(decrease)	163 587	(121 952)
Cash at the beginning of the year	16 273	138 225
Cash at the end of the year	179 860	16 273

Notes on pages 11 to 19 are integral part of the financial statements.

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July 15, 2014

Notes

1. Significant accounting policies

Annual report preparation principles

The annual report is prepared in accordance with the Law on Accounting, Law of Annual Accounts and Latvian accounting standards applicable.

Profit and loss statement was prepared based on turnover method.

Cash flow statement is prepared by indirect method.

The same accounting policies and valuation methods were applied in current and prior reporting year.

Annual report is prepared based on the going concern principle.

Taking into account requirements of the stock exchange, the amounts in the financial statements are disclosed only in EUR. All amounts are translated to EUR based on official Bank of Latvia fixed EUR rate.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are stated at the official currency exchange rate set by the Bank of Latvia at year end. Any gain or loss resulting from a change in the currency rates of exchange is included in the profit and loss statement at net value.

	30.06.2014. EUR	30.06.2013. EUR
1 GBP	0.8015	1.1795

Fixed assets

All fixed assets are initially recorded at purchase price. Land is regularly revaluated and accounted for at market value. Increase of the value resulting from revaluation is accounted as long term revaluation reserve and included in the equity of the Company. The decrease of the value is first deducted from previously recognised revaluation reserve for the same asset and any uncovered loss recognised as expense in profit and loss account.

Fixed assets are stated at historical value less accumulated depreciation.

The assets are depreciated over their estimated useful lives using the straight-line method. Following depreciation rates are applied for fixed assets:

	%
Buildings and constructions	4% - 5%
Machinery and equipment	10% - 20%
Other fixed assets	20% - 35%

1. Significant accounting policies (continued)

Inventories

Inventories are accounted in lower of cost and net realisable value. For raw materials the cost is calculated based on purchase cost accounting to FIFO method, but for work in progress and goods for sale the cost is calculated based their purchase price or production costs according to weighted average principle.

Net realisable value is selling price in the ordinary course of business, less the costs of completion, marketing and distribution.. Net value is disclosed as cast of production, less provision established.

Advances for inventories include also cash paid for cutting rights on those cutting that were not yet processed at the end of the reporting period.

Receivables

Trade receivables are recorded and disclosed in the balance sheet in accordance with initial amount of the invoices, less provision established for doubtful accounts. Provisions for doubtful accounts are estimated when full recoverability of the amount is not likely. Provisions for doubtful accounts are estimated by individual assessment of each debtor.

Corporate income tax

Corporate income tax is calculated for the reporting year is calculated in accordance with regulatory requirements of the Republic of Latvia.

Deferred taxation 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 taxation liability is determined based on the current tax rates. The principal temporary timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets, provision for vacation and accumulated tax losses.

Provisions

Provisions are recognised, when the Company has commitments (legal or supported) due to past events where the likelihood of outflow of economical benefits for Company is estimated and the amount of the liabilities can be reasonably estimated.

2. Revenues

	2014	2013
	EUR	EUR
Timber product related revenues	1 284 037	1 927 045
Other revenues	104 685	922 558
Total:	1 388 722	9 177 391

Revenues according to geographical markets:

	2014	2013
	EUR	EUR
Latvia	771801	661729
Estonia		31045
United Kingdom	616921	224617
Total:	1388722	917391

3. Cost of goods sold

	2014	2013
	EUR	EUR
Cost of materials	888978	582736
Cost of external services	75605	46606
Depreciation	27487	30488
Salaries	142804	118313
Social contributions	39009	32892
Other costs of goods sold	94306	53321
Total:	1 268 189	864 356

4. Administration expenses

	2014	2013
	EUR	EUR
Personnel costs	25 678	24 880
Other administration expenses	3 444	2 456
Total:	29 122	27 336

The Board does not receive remuneration

5. Other operating incomes

	2014	2013
	EUR	EUR
Income from assets	18 000	9 678
Fixed asset write offs		
Disposals net result		
Proceeds from the transaction with certificates		
Income from certificates		
Other incomes	579	1 261
Total:	18 579	10 939

6. Other operating expenses

	2014	2013
	EUR	EUR
Stock exchange related expenses	6 429	6 085
Provisions for doubtful accounts		
Other expenses	688	22
Total:	7 117	6 107

7. Financial income

	2014	2013
	EUR	EUR
Income from currency fluctuations	429	8
Exchange losses		
Other income	-	-
Total:	429	8

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8. Financial expenses

	2014	2013
	EUR	EUR
Interest expenses	1 690	1 881
Incomes from currency		
Loss from currency fluctuations		
Result net currency losses	56	1938
Total:	1 746	3 819

9. Corporate income tax

	2014		2013
	EUR		EUR
Deferred corporate income tax income/ (expenses)			
Corporate income tax income			
Total:			

10. Fixed assets

EUR	Land, buildings and constructions	Machinery and equipment	Other fixed assets	Advances for fixed assets	TOTAL
Historical cost 31.12.2013	223 322	780 543	103 916	60 533	1 168 314
2014 Acquisitions		19 000	1 123	143 500	163 623
Writte offs		(71 144)	(180)		(71 324)
Historical cost 30.09.2011	223 322	728 399	104 859	204 033	1 260 613
Accumulated depreciation 31.12.2013	96 277	601 452	33 003	14 130	744 862
2014 Depreciation	3 487	14 044	8 761	4 223	30 515
Depreciation of assets written off		(71 144)	(180)		(71 324)
Accumulated depreciation 31.03.2014	99 764	544 352	41 584	18 353	704 053
Net book value 31.12.2013	127 045	179 091	70 913	46 403	423 452
Net book value 30.06.2014	123 558	184 047	63 275	185 680	556 560

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Cadastral value of assets of the Company:

	2014	2013
	EUR	EUR
Land	44 839	30 709
Buildings and constructions	70 100	125 122
Total:	114 939	155 831

Fixed assets of the Company are pledged as security for credit line issued by SC „SEB bank”.

11. Trade receivables, net

	2014	2013
	EUR	EUR
Gross trade receivables	198 451	92 125
Provisions for doubtful accounts		
Total:	198 451	92 125

12. Other debtors

	2014	2013
	EUR	EUR
VAT receivable		16 778
Other debtors	3 392	5 638
Total:	3 392	22 416

13. Share capital

Share capital of the Company consists of 495,699 shares with nominal value EUR 1.42288 per share.

	Number	Value (Ls)	Total value (EUR)
Close issue shares	265 699	1.42288	378 058
Public placement	230 000	1.42288	327 258
Total:	495 699		705 316

14. Other provisions

	2014	2013
	EUR	EUR
Provisions for vacations	18 792	9 335
Other provisions		
Total:	18 792	9 335

15. Accrued liability

	2014	2013
	EUR	EUR
Accruals for prospective payment	3 669	2 992
Total:	3 669	2 992

16. Loans from credit institutions

	2014	2013
	EUR	EUR
<i>Long term</i>		
Lease for BMW	15 404	26 145
Lease for VOLVO	77 775	26 145
SC SEB bank credit		37 350
<i>Short term</i>		
Lease for BMW	5 913	4 721
Lease for VOLVO	9 001	34 486
SC SEB bank credit	30 947	6 403
Total:	139 040	74 619

- 1) In accordance with provisions of the agreement TA 11249, the loan repayment shall be done in monthly principal repayments with final term November 24, 2014. The interest rate for the loan is 3 month RIGIBOR +3.41%. The Loan was take for VOLVO FM460, at 30th June, 2014 balance is EUR 30 947. As collateral for the loan serves as a mortgage on real property located in Dumpīšu Street 3, Stende, Talsu district, Financial lien on public funds and commercial mortgage on the newly purchased truck VOLVO FM 460, in accordance with the concluded contract Pledges No. TA11249 / KK-1, with the remaining book value of EUR 60,657 on 06/30/2014.
- 2) The Company entered into a credit line agreement TA10138, the threshold of EUR 142287.18 and maturity of 21/09/2014.
Interest rate 3,55% + 3M Rigibor. Used the credit balance on 30.06.2014. is EUR 0,00.
Secured by a mortgage on real estate Dumpīšu Street 3, Stende, Talsu region under the mortgage contract, the commercial pledge on the Company's existing and future fixed assets, inventories and claim rights and financial pledge to the Company's existing accounts of all cash receipts and claim the right amount.
- 3) The Company's financial leasing TA 11166th in accordance with its terms, the repayment is due in monthly principal installments with final maturity of July 25, 2016. Leasing interest rate of 4,506% per annum of the balance of the value of a fixed percentage 11.3%. financial leasing BMW X5 received iegādei. As collateral serves the leasing object. The carrying value of the pledged property EUR 43376th amount to be paid the balance of EUR 21317th
- 4) The Company's financial leasing TA 14055th in accordance with its terms, the repayment is due in monthly principal installments with final maturity of May 25, 2019. Leasing interest rate of 4,506% per annum of the balance of the value of a fixed percentage 11.3%. Financial leasing received for buying BMW X5. Collateral serves the leasing object. The carrying value of the pledged property EUR 43376th, amount to be paid the balance of EUR 21317th.

17. Taxes payable

	(Liabilities)/ assets 31.12.2013	Calculated	2014 Tranferred to other taxes	Paid/(claimed back)	(Liabilities)/ assets 30.06.2014
EUR					
Value added tax (VAT)	1 782	(12 262)	(14 627)	25 107	-
Social contributions	(8 419)	(56 369)	24 345	32 209	(8 234)
Personnel income tax	(4 013)	(26 504)	-	26 045	(4 472)
Real estate tax	-	(419)	-	419	-
Nature resources tax	(175)	(248)	-	425	2
Corporate income tax	10 176	-	10 176	-	-
Risk duty	(15)	(105)	-	102	(18)
Total	(664)	(95 907)	(458)	84 307	(12 722)
Liabilities	(12 622)				(12 724)

18. Off-balance sheet commitments

In accordance with provisions of the agreement credit line, the limit is EUR 142287.18 and repayment shall be done at 21.09.2014. The interest rate 3.0% +3M Rigibor. The balance on 30.06.2014. is 0.00 EUR. In order to secure potential claims, the Company has issued commercial pledge and has pledged its fixed assets, inventories and debtors in favour to the credit institution.

19. Number of employees

	2014	2013
Average number of employees for the reporting year	<u>46</u>	<u>50</u>

20. Financial risk management

The most significant financial instruments for the Company are loans from credit institutions, related entities and cash and cash equivalents. The main purpose of those financial instruments is to ensure operating activities of the Company. The Company is also exposed to other financial investments that are directly related to operating activities of the Company, such as, trade receivables and other receivables, trade payables and other payables.

