

Translation from Swedish of the

## **ANNUAL REPORT**

for

***Latvian Forest Company Aktiebolag (publ)***  
**Corp. reg. no.: 556789-0495**

The Board of Directors and Chief Executive Officer of Latvian Forest Company AB herewith present the Annual Report for the financial year January 1 - December 31, 2012.

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## **BOARD OF DIRECTORS' REPORT**

### **Operations**

The Latvian Forest Company invests in forest holdings in Latvia and provides consultancy services on the Swedish market. In addition, forestry operations are conducted in Latvia as well as compatible operations that include the granting of rights to forest assets and the marketing and sale of products arising from operations. All investments in properties and the operations pursued in Latvia are conducted via the wholly owned Latvian subsidiary SIA Latvijas Mežu Kompānija.

### **Significant events during the year**

At the beginning of the financial year, total land holdings amounted to approximately 1,158 hectares, of which about 716 comprised forest holdings with an estimated standing timber volume of some 83,475 cubic meters. The expansion of land holdings continued during the year, and total holdings at year-end amounted to approximately 2,010 hectares, of which some 1,378 consisted of forest holdings, 513 agricultural land and the remainder was other land. The estimated total standing timber volume amounted to approximately 143,000 cubic meters. A total of about SEK 19.8 M has been invested in properties since the establishment of the company in autumn 2009, with investments during the 2012 financial year amounting to approximately SEK 8.7 M.

During the first quarter, two minor targeted share issues were conducted, totaling approximately SEK 1.2 M. The share issue price was SEK 7.50 per share for both issues, with the number of issued shares amounting to 162,060. As a result of the issues, share capital increased by SEK 162,060 and the number of shareholders at the end of the period was 74. The funds raised were aimed at investing in forest holdings as part of efforts to continue the expansion of total holdings. By the end of the first quarter of 2012, the Latvian Forest Company had been financed in a total amount of some SEK 16.7 M through new share issues since its establishment.

Revenue for the first quarter totaled approximately SEK 408,000 and was attributable primarily to harvesting. The completed harvesting generated an average net income of about SEK 240 per cubic meter, despite a sluggish timber market during the period. Costs during the first quarter progressed as planned. At the end of the first quarter, total holdings amounted to 1,351 hectares, of which 870 consisted of forest holdings and 481 of agricultural or other land. Meanwhile, the estimated total standing timber volume amounted to approximately 99,000 cubic meters. During the period, the total land area reached a maximum of 1,393 hectares but declined subsequently due to an acquisition of about 133 hectares that was reverted due to the seller's ambiguous ownership situation. All payments were repaid and the reversion did not result in any negative financial effects.

During the second quarter, preparations commenced for a listing of B shares on the Swedish Aktietorget exchange, which progressed smoothly and the share was listed for trading on June 18. At the end of the period, the Latvian Forest Company had been financed in a total amount of some SEK 18.5 M through new share issues. Investments in properties continued throughout the quarter and amounted to 1,413 hectares at the end of the period. Of

this total, 870 consisted of forest holdings and 481 of agricultural or other land. At this point, the estimated total standing timber volume was approximately 102,000 cubic meters.

During the second quarter, two targeted new share issues were completed, totaling approximately SEK 1.8 M. The share issue price was SEK 7.50 per share and the total number of B shares issued amounted to 234,000, resulting an increase in share capital of SEK 234,000. During this quarter, an agreement was also reached with an investor concerning a credit line of some SEK 10 M in short-term borrowing as part of efforts to conduct major acquisitions in the near future. Following the completion and registration of new shares issues during the period, share capital amounted to SEK 3,140,125, distributed among 80,000 A shares and 3,060,125 B shares.

Revenue for the second quarter was a modest SEK 5,500, because no harvesting was conducted during the period. Within the framework of EU-financed projects, subsidies were granted for the precommercial thinning of about 175 hectares. Precommercial thinning was conducted during the second and third quarters and the subsidies were reported as income during the fourth quarter. Precommercial thinning costs were booked regularly during the latter six months. Precommercial thinning raises future property values, while it is also expected to provide net income for each hectare thinned.

At the end of the third quarter, total financing since start-up amounted to approximately SEK 18.5 M. No new share issues were conducted during the third quarter. At the close of the period, SEK 3.5 M, of the existing credit line had been utilized and some SEK 2.2 M was used for the acquisition of properties, with the aim of repaying the credit within six months.

Property investments continued during the third quarter and holdings at the end of the period totaled 1,798 hectares, of which 1,197 were forest holdings, 501 agricultural land, with the remainder consisting of other land. The estimated total standing timber volume amounted to approximately 129,000 cubic meters.

Revenue for the first nine months totaled some SEK 408,000 and was mainly attributable to harvesting during the first quarter. The reported revenue for the third quarter was a negative SEK 5,000 as a result of exchange rate effects.

At the beginning of the fourth quarter of 2012, the Latvian Forest Company had been financed in a total of approximately SEK 29.3 M through new share issues. During the fourth quarter, an over-subscribed preferential rights issue was conducted, which provided funds of about SEK 10.8 M before share issue costs. The share issue price was SEK 7.00 for each unit consisting of one B share and one share warrant that entitles the holder to subscribe for one new B share at a price of SEK 9.00 during the period March 3, 2014 through May 30, 2014. The total number of B shares issued was 1,542,584 and the number of warrants amounted to 1,542,584. Following registration, the share issued added about 500 new shareholders.

It was not possible to register the new share issue by the end of the fourth quarter. Thus, the share capital, following the completed and registered new share issues during 2012, amounted to SEK till 3,143,125, distributed among 80,000 A shares and 3,063,125 B shares. Meanwhile, an additional SEK 5.0 M was utilized of the credit line, which was mainly used for property acquisitions. The objective was that part of the proceeds from the issue of units would be used for the repayment of the loan during 2013.

Property investments continued during the fourth quarter and holdings at the end of the period amounted to 2,010 hectares, of which 1,378 were forest holdings, 513 agricultural land, with the remainder consisting of other land. At this point, the estimated total standing timber volume was approximately 143,000 cubic meters. Overall, approximately SEK 19.8 M had been invested in properties since start-up in autumn in 2009. About SEK 8.7 M was invested over the course of 2012.

The fourth quarter marked the first sale of a property since the company commenced operations in 2009. The sale of the property – consisting of 21.2 hectares– resulted in a capital gain of approximately SEK 116,000, corresponding to a return of about 160 percent. The property was acquired in August 2010 for approximately SEK 73,000 as part of a property package that comprised mainly agricultural land. Consequently, the sale did not affect the total standing timber volume.

Harvesting during 2012 totaled about 2,100 cubic meters, corresponding to some 36 percent of the estimated growth for the year. Permits for harvesting covered a total volume of approximately 8,000 cubic meters.

Revenue for 2012 amounted to about SEK 972,000 and was mainly attributable to harvesting, property sales and EU subsidies for precommercial thinning. Costs and subsidy income for precommercial thinning were reported in their entirety during the fourth quarter of 2012. Income from precommercial thinning amounted to about SEK 264,000.

### **Significant events after the end of the financial year**

The new share issue completed in December 2012 was registered in early January 2013. The total number of shares after registration amounted to 4,685,709, of which 4,605,709 were B shares. The number of warrants issued within the framework of the issue totaled 1,542,584. Trading of warrants on the Aktietorget exchange commenced on January 17, 2013.

During the first quarter of 2013, 19 properties were acquired, comprising a total of 370 hectares, of which 237 consisted of forest holdings and the remainder of agricultural land and other land. The investment amounted to approximately SEK 4.4 M and the acquired standing timber volume totaled some 22,100 cubic meters. As a result, total property holdings rose to 2,380 hectares, of which 1,614 consisted of forest holdings, 610 agricultural land and 156 of other land. The estimated total standing timber volume, following acquisitions and harvesting completed during the first quarter of 2013, was approximately 163,000 cubic meters at the end of the first quarter.

Total harvesting during the first quarter of 2013 was approximately 5,200 cubic meters. Net income (that is, after harvesting costs) from these harvesting operations was approximately SEK 1.2 M, corresponding to some SEK 230 per cubic meter.

## Share capital trend

Year	Event	A shares	B shares	Total number of shares	Change in share capital SEK	Total share capital, SEK	Par value SEK
2009	Company established		1 000	1 000	100 000.00	100 000.00	100.0
2009	Split 1:100	80 000	20 000	100 000	-	100 000.00	1.0
2010	New share issue		403 119	503 119	403 119.00	503 119.00	1.0
2010	New share issue		550 333	1 053 452	550 333.00	1 053 452.00	1.0
2010	New share issue		88 800	1 142 252	88 800.00	1 142 252.00	1.0
2010	New share issue		10 200	1 152 452	10 200.00	1 152 452.00	1.0
2010	New share issue		280 113	1 432 565	280 113.00	1 432 565.00	1.0
2011	New share issue		339 167	1 771 732	339 167.00	1 771 732.00	1.0
2011	New share issue		437 667	2 209 399	437 667.00	2 209 399.00	1.0
2011	New share issue		15 000	2 224 399	15 000.00	2 224 399.00	1.0
2011	New share issue		519 666	2 744 065	519 666.00	2 744 065.00	1.0
2012	New share issue		55 060	2 799 125	55 060.00	2 799 125.00	1.0
2012	New share issue		107 000	2 906 125	107 000.00	2 906 125.00	1.0
2012	New share issue		60 700	2 966 825	60 700.00	2 966 825.00	1.0
2012	New share issue		176 300	3 143 125	176 300.00	3 143 125.00	1.0
		<b>80 000</b>	<b>3 063 125</b>	<b>3 143 125</b>			

## Liquidity and cash flow

As in the past, the company financed its acquisitions by means of a number of new share issues, which were conducted when market conditions appeared attractive. During the year, the company managed to receive a credit line that offered the potential to conduct a more extensive new share issue. Towards the end of the year, and in cooperation with a stock issuance institute, a new share issue was conducted that provided proceeds of almost SEK 11 M. The share issue was registered on January 3, 2013 at the Swedish Companies Registration Office (Bolagsverket), which meant that the entire proceeds from the share issue were locked into client fund accounts at the share issuance institute during the turn of the year. For accounting purposes, this meant that a miscellaneous receivable for the amount had to be booked. The proceeds from the share issue were transferred to the company's bank account on January 4, 2013. Overall, 2012 entailed favorable cash flow thanks to the completed share issue and good liquidity via the credit line. An adjusted cash flow, based on the paid share issue proceeds, shows a positive cash flow of SEK 8,790,000 for the Group.

## Revenue and earnings

Revenue for 2012 totaled approximately SEK 972,000, attributable primarily to harvesting, property sales and subsidies for precommercial thinning operations. Costs and subsidy-based income for precommercial thinning were reported in their entirety during the fourth quarter of 2012. Income from precommercial thinning totaled approximately SEK 264,000. Income from harvesting conducted during the fourth quarter amounted to about SEK 165,000. The

capital gain from the sale of a property during the fourth quarter was approximately SEK 185,000.

Completed harvesting generated an average net income of about SEK 230 per cubic meter, despite a relatively weak timber market. The plan was to conduct a number of harvesting operations during 2012 but due to such factors as unfavorable market conditions and a weak market during the first six months, this was postponed to a future date. If it had proved possible to conduct planned harvesting activities, revenue for 2012 would largely have corresponded to aggregate costs for the year.

Operational costs progressed as planned. The operating loss totaled 643,000. A weaker Euro during the year (to which the Latvian Lats is pegged) resulted in an unrealized exchange rate effect that impacted earnings by some SEK 116,000. The loss for the period amounted to SEK 852,000.

### Risks

The Group is continually exposed to a number of risks. The short-term and most significant risk is changes in exchange rates. A stronger Swedish krona (SEK) entails that Latvian assets decline in value in terms of SEK, and vice versa. Other risks are primarily related to assets that may be affected by such factors as fire, pests, extreme weather conditions and so forth. No particular insurance has been taken out to cover these costs, since the cost of such insurance is not regarded as being proportional to the risk to which the company is exposed and the potential financial loss. Since the Group's assets are spread over a large geographical area, the assessment is that the risk of a substantial negative impact on total assets is limited.

<u>Data in brief, SEK 000s</u>	<u>Group 2012</u>	<u>Group 2011</u>	<u>Parent Company 2012</u>	<u>Parent Company 2011</u>
Net revenue	592.1	337.7	0.0	93.6
Operating profit	-642.9	-825.1	-840.5	-640.2
Profit after net financial items	-852.0	-853.7	-716.6	-189.1
Balance sheet total	32 206.7	14 203.8	32 827.2	14 704.0
Equity/assets ratio	78.9%	97.9%	80.0%	99.4%
Average number of employees	2.5	2.5	1.0	1.0

### **Proposal for the appropriation of profit/loss, SEK**

The following funds are at the disposal of the Annual General Meeting:

Profit/loss brought forward	-617 526
Share premium reserve	22 903 963
Profit/loss for the year	<u>-716 630</u>
<b>Total</b>	<b><u>21 569 807</u></b>

The Board of Directors and Chief Executive Officer propose that both the profit/loss and share premium reserve be carried forward to a new account.

In other respects, reference is made to the following income statements and balance sheets, and to the accompanying notes and comments.

<b>CONSOLIDATED INCOME STATEMENT, SEK 000s</b>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Net revenue	1	592.1	337.7
Other income	1	379.9	-
<b>Total income</b>	<b>1</b>	<b>972.0</b>	<b>337.7</b>
Cost of goods sold		-297.3	-119.5
Other external costs		-662.3	-641.5
Personnel costs	2	-617.7	-398.0
Depreciation of equipment	6	-37.6	-3.8
<b>Total operating expenses</b>		<b>-1 614.9</b>	<b>-1 162.8</b>
<b>Operating profit/loss</b>		<b>-642.9</b>	<b>-825.1</b>
<b>Result from financial investments</b>			
Interest income and similar profit/loss items	3	19.3	14.5
Interest expense and similar profit/loss items	3	-228.4	-43.1
<b>Net financial income</b>	<b>3</b>	<b>-209.1</b>	<b>-28.6</b>
<b>Profit/loss after financial items</b>		<b>-852.0</b>	<b>-853.7</b>
Tax on profit for the year		0.0	0.0
<b>NET PROFIT/LOSS FOR THE YEAR</b>		<b>-852.0</b>	<b>-853.7</b>

**CONSOLIDATED BALANCE SHEET, SEK 000S** **Note** **Dec. 31, 2012** **Dec. 31, 2011**

**ASSETS**

**FIXED ASSETS**

**Tangible fixed assets**

Properties	4, 5	19 612.9	11 017.5
Equipment	6	158.9	179.9

**Total tangible fixed assets** **19 771.8** **11 197.4**

**TOTAL FIXED ASSETS** **19 771.8** **11 197.4**

**CURRENT ASSETS**

**Current receivables**

Accounts receivable - trade		164.8	30.0
Other receivables	8	11 277.8	289.9
Prepaid expenses and accrued income		314.6	-

**Total current receivables** **11 757.2** **319.9**

**Cash and bank balances** **677.7** **2 686.5**

**TOTAL CURRENT ASSETS** **12 434.9** **3 006.4**

**TOTAL ASSETS** **32 206.7** **14 203.8**

**SHAREHOLDERS' EQUITY AND LIABILITIES**

**SHAREHOLDERS' EQUITY**

9

Share capital		4 685.7	2 744.1
Share premium reserve		22 904.0	12 493.5
Profit/loss brought forward		-1 314.5	-478.4
Profit/loss for the year		-852.0	-853.7

**TOTAL SHAREHOLDERS' EQUITY** **25 423.2** **13 905.5**

**LIABILITIES**

**Long-term liabilities**

Long-term liabilities to credit institutions 10 84.0 114.0

**Current liabilities**

Bills payable		1 325.6	31.1
Current portion of long-term liabilities	10	26.0	25.6
Other liabilities	11	5 033.3	19.2
Accrued expenses and deferred income		314.6	108.4

**Total current liabilities** **6 699.5** **184.3**

**TOTAL LIABILITIES** **6 783.5** **298.3**

**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** **32 206.7** **14 203.8**

**PLEGDED ASSETS**

Blocked funds in bank accounts		50.0	50.0
General mortgage of Parent Company's assets	11	5 000.0	-

**CONTINGENT LIABILITIES**

Ownership rights in installment payment contracts 110.0 137.7



<b>CONSOLIDATED CASH FLOW STATEMENT, SEK 000s</b>	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>
<b><i>Operating activities</i></b>		
Result after financial items	-852.0	-853.7
Adjustments for non-cash items:		
- Translation differences, foreign currency	130.9	43.1
- Translation difference for profit/loss in foreign currency	-20.1	1.8
- Depreciation of tangible fixed assets	37.6	3.8
<b>Cash flow from operating activities before changes in working capital</b>	<b>-703.6</b>	<b>-805.0</b>
Cash flow from changes in working capital:		
-/+ Increase/Decrease in operating receivables	-11 419.7	-157.1
+/- Increase/Decrease in operating liabilities	1 404.0	28.8
<b>Cash flow from operating activities</b>	<b>-10 719.3</b>	<b>-933.3</b>
<b><i>Investing activities</i></b>		
Investments in property	-8 595.4	-7 567.0
Investments in equipment and machinery	-16.6	-183.7
Deposits made	-	-88.1
<b>Cash flow from investing operations</b>	<b>-8 612.0</b>	<b>-7 838.8</b>
<b><i>Financing operations</i></b>		
New share issues	2 992.9	7 868.9
Costs of capital raising	-1 438.9	-190.4
New share issue in progress	10 798.1	-
Changes in borrowings	4 970.4	139.6
<b>Cash flow from financing operations</b>	<b>17 322.5</b>	<b>7 818.1</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>-2 008.8</b>	<b>-954.0</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2 686.5</b>	<b>3 640.5</b>
Cash flow for the year, as above	-2 008.8	-954.0
<b>Cash and cash equivalents at the end of the year</b>	<b>677.7</b>	<b>2 686.5</b>

<b>PARENT COMPANY'S INCOME STATEMENT, SEK 000s</b>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Net revenue		0.0	93.6
		<u>0.0</u>	<u>93.6</u>
Other external costs		-445.8	-405.2
Personnel costs	2	-394.7	-328.6
Total operating costs		-840.5	-733.8
<b>Operating profit/loss</b>		<b>-840.5</b>	<b>-640.2</b>
Result from financial investments			
Interest income and similar profit/loss items	3	779.6	478.2
Interest expense and similar profit/loss items	3	-655.7	-27.1
Net financial income	3	123.9	451.1
<b>Profit/loss after financial items</b>		<b>-716.6</b>	<b>-189.1</b>
Tax on profit for the year		0.0	0.0
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>-716.6</b>	<b>-189.1</b>

<b>PARENT COMPANY'S BALANCE SHEET, SEK 000s</b>	<b>Note</b>	<b>Dec. 31 2012</b>	<b>Dec. 31, 2011</b>
<b>ASSETS</b>			
<b>FIXED ASSETS</b>			
<b>Financial fixed assets</b>			
Participations in subsidiaries	7	28.3	28.3
Receivables from subsidiaries		21 056.4	12 441.0
<b>TOTAL FIXED ASSETS</b>		<b>21 084.7</b>	<b>12 469.3</b>
<b>CURRENT ASSETS</b>			
<b>Current receivables</b>			
Accounts receivable - trade		30.0	30.0
Other receivables	8	11 139.5	42.2
<b>Total current receivables</b>		<b>11 169.5</b>	<b>72.2</b>
<b>Cash and bank balances</b>		<b>573.0</b>	<b>2 162.5</b>
<b>TOTAL CURRENT ASSETS</b>		<b>11 742.5</b>	<b>2 234.7</b>
<b>TOTAL ASSETS</b>		<b>32 827.2</b>	<b>14 704.0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	4 685.7	2 744.1
Share premium reserve		22 904.0	12 493.5
Profit/loss brought forward		-617.6	-428.6
Profit/loss for the year		-716.6	-189.1
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>26 255.5</b>	<b>14 619.9</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bills payable		1 312.7	26.0
Other liabilities	11	5 026.4	15.5
Accrued expenses and deferred income		232.6	42.6
<b>Total current liabilities</b>		<b>6 571.7</b>	<b>84.1</b>
<b>TOTAL LIABILITIES</b>		<b>6 571.7</b>	<b>84.1</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>32 827.2</b>	<b>14 704.0</b>
<b>PLEGED ASSETS</b>			
Blocked funds in bank accounts		50.0	50.0
General mortgage of the Parent Company's assets	11	5 000.0	-
<b>CONTINGENT LIABILITIES</b>		None	None

<b>PARENT COMPANY'S CASH FLOW STATEMENT, SEK 000s</b>	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Profit/loss after financial items	-716.6	-189.1
Adjustments for non-cash items:		
Non-realized interest payments	-760.4	-478.2
Non-realized exchange rate differences and interest	537.6	27.1
<b>Cash flow from operating activities before changes in working capital</b>	<b>-939.4</b>	<b>-640.2</b>
Cash flow from changes in working capital:		
-/+ Increase/Decrease in operating receivables	-11 097.3	-23.5
+/- Increase/Decrease in operating liabilities	6 487.6	2.2
<b>Cash flow from operating activities</b>	<b>-5 548.9</b>	<b>-661.3</b>
<b>Investing activities</b>		
Investments in participations in subsidiaries	-	-
<b>Cash flow from investing activities</b>	<b>-</b>	<b>-</b>
<b>Financing activities</b>		
New share issue	2 992.9	7 868.9
New share issue in progress	10 798.1	-
Costs of raising capital	-1 438.9	-190.4
Increase in lending to subsidiaries	-8 392.7	-8 134.2
<b>Cash flow from financing activities</b>	<b>3 959.4</b>	<b>-455.7</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>-1 589.5</b>	<b>-1 117.0</b>
Cash and cash equivalents at the beginning of the period	2 162.5	3 279.5
Cash flow for the year, as above	-1 589.5	-1 117.0
<b>Cash and cash equivalents at the end of the year</b>	<b>573.0</b>	<b>2 162.5</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Accounting principles**

#### **Amounts, designations and dates**

Unless otherwise stated, all amounts in this Annual Report are expressed in thousands of Swedish kronor (SEK 000s). All the notes and comments refer to the Group unless they explicitly refer to the Parent Company. The accounting period extends from January 1 through December 31, 2012. Comparative figures refer to the previous year financial year.

#### **General information**

The accounting principles applied in the consolidated financial statements and in the Parent Company's financial statements comply with the Swedish Annual Accounts Act and the application of general advice, recommendations and statements issued by the Swedish Accounting Standards Board.

Receivables are valued at the lower of the acquisition value and the amounts at which they are expected to be settled. Other assets and liabilities are valued at the acquisition value unless otherwise stated.

Receivables and liabilities in foreign currency are valued at the closing exchange rate. Capital gains and losses on operating receivables and operating liabilities are reported in operating profit, while capital gains and losses on financial receivables and liabilities are reported as financial items.

#### **Income recognition**

Income is reported at the fair value of what the company has received or will receive. This means that the company reports income at its nominal value (invoiced amount).

In conjunction with the sale of goods, the proceeds are normally reported as income when the significant benefits and risks associated with ownership of the goods have been transferred from the company to the buyer.

In connection with the sale of intangible assets, such as harvesting rights, income is reported when the contracts come into effect.

#### **Income from service assignments**

The company recognizes income on the basis of current accounting in accordance with the primary rule for annual accounts (2003:3) set by Swedish Accounting Standards Board. This means that income is reported in pace with the invoicing of services and the reporting of expenses as costs when they arise.

#### **Tangible fixed assets**

Tangible fixed assets are reported at the acquisition value with deductions for accumulated depreciation and any impairment. The acquisition value consists of the purchase price and costs directly attributable to acquisition from the date on which the asset was deployed for its purpose.

Biological fixed assets are not depreciated, since the scheduled output from forests is always expected to be less than growth, meaning that the number of cubic meters of forestland will continually increase. If the market value of forest properties declines, impairment of the market value shall be applied. Consequently, all properties shall be valued once annually in connection with the end of the financial year.

Tangible fixed assets denominated in foreign currency are regarded as non-monetary items and are revalued to SEK on the acquisition date. Subsequently, no changes in the acquisition value are reported irrespective of changes in exchange rates.

### **Subsidies**

What are referred to as EU subsidies are reported at their fair value when it is reasonable and assured that the subsidy will be paid and the company has met the terms and conditions and assumed the costs associated with the subsidy.

### **Consolidated financial statements**

The consolidated financial statements are prepared in accordance with the acquisition method and primarily in accordance with recommendation RR1 of the Swedish Financial Accounting Standards Council.

The consolidated financial statements encompass the Parent Company and subsidiaries. Subsidiaries are companies in which the Parent Company, directly or indirectly, holds more than 50 percent of the shares for which holders are entitled to vote, or exercises decisive influence in some other manner.

Intra-Group receivables and liabilities, income and costs as well as profits and losses are eliminated in their entirety in the consolidated financial statements.

### **Employee remuneration**

The Group has no pension commitments.

**Note 1, Income**

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
<b>Net revenue</b>		
Sales of harvesting rights	489.4	337.7
Sales of timber	70.9	-
Rental income/Leases/Other services	31.8	-
<b>Total net revenue</b>	<b>592.1</b>	<b>337.7</b>
<b>Other income</b>		
Subsidies received from Rural Support Service. Latvia	264.2	-
Capital gains from the sale of fixed assets	115.7	-
<b>Total other income</b>	<b>379.9</b>	<b>-</b>
<b>Total income</b>	<b>972.0</b>	<b>337.7</b>

Sales and purchases among Group companies did not occur during the year.

**Note 2. Employees and personnel costs**

	<b>Group</b>		<b>Parent Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Average number of employees		3.0	2.5	1.0
<b>Salaries and remuneration</b>				
Salaries and remuneration for the Board and CEO	300.0	250	300.0	250.0
Salaries and remuneration for other employees		179.6	56.5	0.0
<b>Total</b>	<b>479.6</b>	<b>306.5</b>	<b>300.0</b>	<b>250.0</b>
<b>Social security expenses</b>				
On behalf of the Board and CEO	94.3	78.6	94.3	78.6
On behalf of other employees	43.3	12.8	-	-
<b>Total</b>	<b>137.6</b>	<b>91.4</b>	<b>94.3</b>	<b>78.6</b>
<b>Grand total</b>	<b>617.2</b>	<b>397.9</b>	<b>394.3</b>	<b>328.6</b>

**Note 3, Net financial items**

Interest income and similar profit/loss items in the Parent Company include interest income from subsidiaries in the amount of SEK 760,300 (463,700) as well as unrealized exchange-rate differences on loans to subsidiaries in a negative amount of SEK 537,600 (neg.: 27,100).

Interest expense and similar profit/loss items are not included in non-realized currency losses of SEK 118,100 (43,100). The losses are attributable to the Parent Company's loans to the subsidiary and the investments in properties for which the capital has been used.

**Note 4, Property holdings**

Property holdings at the close of the financial year totaled 2,010 hectares (1,137) for which full payment has been made. According to the property register, these consisted of 1,378 hectares (712) of forest holdings, 513 hectares (362) of agricultural land and the remainder comprising other land or impediments. The number of units with an individual registration number in the Latvian property register totaled 112 (53).

**Note 5, Properties**

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
Opening acquisition value	11 017.5	3 450.5
Acquisitions during the year	8 665.4	7 567.0
Divestments during the year	-70.0	-
Closing acquisition value	19 612.9	11 017.5
<b>Closing book value</b>	<b>19 612.9</b>	<b>11 017.5</b>

In addition to that reported above, deposits have been paid in the amount of SEK 0.0 (128,500) for acquisitions in progress. They are included in the item "Other receivables".

## Note 6, Equipment

### Group

	<b>2012</b>	<b>2011</b>
Opening acquisition value	183.7	-
Acquisitions during the year	16.6	183.7
Closing acquisition value	200.3	183.7
Opening accumulated depreciation	-3.8	-
Depreciation for the year	-37.6	-3.8
Closing accumulated depreciation	-41.4	-3.8
<b>Closing book value</b>	<b>158.9</b>	<b>179.9</b>

Inventories are depreciated according to schedule over a 5-year period.

<b>Note 7, Participations in subsidiaries (Parent Company)</b>	<u>Votes/ ownership</u>	<u>Shareholders' equity</u>	<u>Profit/loss reported in latest annual report</u>
Latvijas mežu kompānija, registered in Riga, corp. reg. no.: 40103282492	100%	-1 210.7	-557.3
<b>Total</b>		<b>-1 210.7</b>	<b>-557.3</b>

## Note 8, Other receivables

Other receivables consist primarily of SEK 10,798,000 of the share issue proceeds paid into the share issuance institution. The amount was transferred on January 4, 2013 to the company's bank in conjunction with the share issue being registered at the Swedish Companies Registration Office (Bolagsverket).

## Note 9, Shareholders' equity

<i>Group (3,143,125 shares)</i>	<u>Share capital</u>	<u>Share premium reserve</u>	<u>Profit/loss</u>	<u>Profit/loss for the year</u>	<u>Total</u>
At the beginning of the year	2 744.1	12 493.5	-478.4	-853.7	13 905.5
New share issue	399.0	2 593.9	-	-	2 992.9
New share issue in progress	1 542.6	9 255.5	-	-	10 798.1
Capital raising expenses	-	-1 438.9	-	-	-1 438.9
Reversal of previous year's profit/loss	-	-	-853.7	853.7	0.0
Rounding difference	-	-	17.6	-	17.6
Profit/loss for the year	-	-	-	-852.0	-852.0
<b>At year-end, as per the balance sheet</b>	<b>4 685.7</b>	<b>22 904.0</b>	<b>-1 314.5</b>	<b>-852.0</b>	<b>25 423.2</b>

<i>Parent Company (3,143,125 shares)</i>	<u>Share capital</u>	<u>Share premium reserve</u>	<u>Profit/loss</u>	<u>Profit/loss for the year</u>	<u>Total</u>
At the beginning of the year	2 744.1	12 493.5	-428.6	-189.1	14 619.9
New share issue	399.0	2 593.9	-	-	2 992.9
New share issue in progress	1 542.6	9 255.5	-	-	10 798.1
Fund raising expenses	-	-1 438.9	-	-	-1 438.9
Reversal of previous year's profit/loss	-	-	-	-189.1	189.1
Rounding difference	-	-	0.1	-	0.1
Profit/loss for the year	-	-	-	-716.6	-716.6
<b>At year-end, as per the balance sheet</b>	<b>4 685.7</b>	<b>22 904.0</b>	<b>-617.6</b>	<b>-716.6</b>	<b>26 255.5</b>

## Note 10, Long-term liabilities, credit institutions

**Dec. 31, 2012**

**Dec. 31, 2011**

Long-term liabilities	84.0	114.0
Short-term portion of long-term liabilities	26.0	25.6
<b>Total liabilities</b>	<b>110.0</b>	<b>139.6</b>

The long-term liability consists of an installment payment contract. The liability matures in its entirety within 5 years.

## Note 11, Other liabilities

During the year, the Parent Company concluded an agreement covering a credit line totaling SEK 10 M that may be used in the short term, when and if required, such as in conjunction with new share issues or other capital raising, which may require time depending on market conditions and the complexity of the arrangement. SEK 5 M of the credit line had been utilized by year-end.

The Parent Company's assets have been generally pledged as security for the credit line.



Stockholm, May 29, 2013

Jan Edvard Alvenius  
Chairman

Ulrika Arver

Martin Skugge

Fredrik Zetterström  
Chief Executive Office

My auditor's report was submitted on May 29, 2013

**Håkan Andersson**  
Authorized Public Accountant