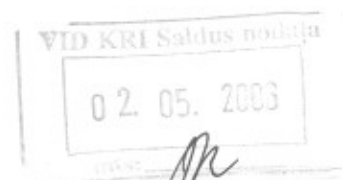


Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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**Joint-stock Company “Saldus Timber Industry”  
Annual Report for the year 2005**



**Saldus**

<b>Contents</b>	<b>page</b>
Information about the company	3
Management report	4
Estimation of profit and loss	6
Balance-sheet	7
Statement about cash flow	9
Statement about changes of equity	10
Annexes	13
Auditor's opinion	22

*Information about the company*

Name of the company	“Saldus Timber Industry”
Legal status of the company	Joint-stock company
Registration number, date and place	000302012, August 26, 1991, Riga
Address	Mežvidi, Novadnieki Local Community, Saldus Region LV 3801
Main types of business activities	Forestry, timber processing and services related to it, sawing, etc.
Names, surnames and positions of the members of the board of directors	Jānis Bertrāns, chairman of the board of directors Ivars Feikners, manager of the department for forest resources Gundars Maurs, manager of the financial department
Names, surnames and positions of the members of council	Jēkabs Feikners, Saldus MRU Ltd., chairman of the board of directors Alvis Spārns, Joint-stock company “Saldus Timber Industry”, cruiser Gunta Zoltnere, Joint-stock company “Saldus Timber Industry”, auditor Gunvaldis Vēsmiņš, “Laskana” Ltd., president Edgars Gailītis, Saldus MRU Ltd., foreman
Year of account	January 1- December 31, 2005
Name and address of the auditor	Nellijs Pagarbniece Sworn auditor (Certificate No 87, issued by LZRA)  Pagarbniece Auditor's Bureau Ltd. Licence No 8 Hospitāļu Street 8, Riga LV-1013 Latvia

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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*Joint-stock company “Saldus Timber Industry”  
Management report  
of the activities for the year 2005*

In the year 2005 for the period of 12 months the joint-stock company “Saldus Timber Industry” from its economic activities has earned profit of 1 140 088 LVL. In comparison with the previous period (year 2004) profit has increased for 421 951 LVL. Net turnover for the accounting period of 12 months of the year 2005 has been 9 586 197 LVL, which has increased for 2 919 389 LVL in comparison with the relevant period of the year 2004. The growth of profit from economic activity and the growth of net turnover are both related to the increase of production and the growth of the volume of sold production during the accounting period, as well as due to the rapid changes in the market that followed after the storm on January 8-9, 2005. As a result of it the purchasing price of the raw material (E type saw logs) in comparison with the year 2004 decreased for 16.5%, however, price of the sold production in comparison with the previous accounting period decreased very little- for 0.5%. Besides, the volume of production in a saw-mill at Kuldīga 86a has increased from 19 350 m<sup>3</sup> (in the year 2004) to 33 660 m<sup>3</sup> (in the year 2005). As a result of work that was done to clear windfall and wind broken trees in forests owned by the company and state forests, the volume of logging in the accounting period of the year 2005 reached 280 150 m<sup>3</sup> (in comparison with the year 2004 when it was 208 600 m<sup>3</sup>). In the year 2006 the planned volume of production in logging is planned accordingly 245 000 m<sup>3</sup>, but in the wood processing accordingly 36 000 m<sup>3</sup>.

In the year 2005, 112 526 LVL were received from the European Regional Development Fund, which were spent to purchase a harvester “Timberjack 1270D”. Besides, 49 875 LVL were received from the LAD and were spent to purchase a forwarder “Timberjack 810D”. Money that was received from the ERDF and LAD is divided as incomes for the next periods for the time of appropriate use of fixed assets.

In the year 2005, 100% shares of the “Pakuļi Sports centre” were purchased for the total price of 146 000 LVL with the goal to develop in the area tourism and recreational business.

In the year 2006, in Pskov County in the Russian Federation in a public auction was purchased a real estate (buildings) for the total price of 18 927 LVL with a goal to develop there a subsidiary company and to start there such economic activities as logging business and purchasing and processing of round timber.

Total profit of the company for the accounting period of 12 months of the year 2005 has been 1 278 894 LVL before taxes, which in comparison with the previous accounting period has increased for 747 357 LVL. Distributable profit for the accounting period of the year 2005 has been 1 092 705 LVL. There have been the following proposals of the distribution of profit:

162 597 LVL (~15%) - to pay out as dividends (0.42 Ls for a share)

930 108 LVL (~85%) - to invest in the development of production

In the year 2006, 2 341 440 LVL are planned to be invested due to the expansion of economic activity and improvement of the conditions of production, i.e.:

In the development and construction of a trade centre (700 000 LVL);

In the construction of a repairs shop (550 000 LVL);

In the reconstruction and repair of the administration building (300 000 LVL);

In the purchase of forest property (300 000 LVL);

In the purchase of a line for sorting dry timber and construction of a building for it (200 000 LVL);

In the purchase of a line for processing small wood (128 660 LVL);

In the purchase of other fixed assets 162 780 LVL)

In order to implement the investment plan it is vital to attract bank capital (in form of leasing and credits) for the amount of 1 411 200 LVL. To balance the fluctuations of cash flow due to seasonality of business, there is need to reserve funds of 300 000 LVL, which is secured by the credit line assigned by banks.

Since the end of the accounting period until signing of the report there have not been any incidents that could have affected the financial stability of the company.

Board of directors:

April 11, 2006

The block contains three handwritten signatures in black ink. The first signature is on the left, the second is in the middle, and the third is on the right. They appear to be the signatures of the members of the Board of Directors.

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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*Statement about the responsibility of management*

Management of the company is responsible for developing financial statements, which are based on initial accounting for each accounting period and faithfully reflect financial status of the company at the end of an accounting period, as well as on the results of its activity and cash flow for the period.

Management verifies that when the report for the period, which ends on December 31, 2005, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

Management is responsible for keeping relevant accounting records, for maintaining company's assets and for preventing deception and ignominy.

Board of directors:



April 11, 2006

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005



*Profit and loss account for the year 2005*

No	Name of parameter	Notes	Year 2005	Year 2004
1.	Net turnover	1	9586197	6666808
2.	Production costs of the sold products	2	8446108	5948671
3.	<b>Gross profit or loss</b>		<b>1140089</b>	<b>718137</b>
4.	Selling costs		5160	1994
5.	Administration costs	3	167505	87570
6.	Other income from company's economic activities	4	53795	35143
7.	Other costs from company's economic activities	4	128054	79778
8.	Income from participation in capitals of subsidiary companies and associated companies of the holding company		429787	
9.	Income from securities and loans, which have made long-term investments			
10.	Other interest income and the like income	5	9405	261
11.	Long-term financial investments and short-term writing off of the value of securities			
12.	Interest payments and the like costs	5	53463	52662
15.	<b>Profit or loss before extraordinary items and taxes</b>		<b>1278894</b>	<b>531537</b>
16.	Extraordinary income			
17.	Extraordinary costs			
18.	<b>Profit or loss before taxes</b>		<b>1278894</b>	<b>531537</b>
19.	Company's income tax		140642	52683
20.	Deferred income tax of the company		37041	
21.	Other taxes		8506	6889
22.	<b>Profit or loss of the year of account (net income)</b>		<b>1092705</b>	<b>471965</b>

Board of directors:

April 11, 2006

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

VID KRI Saldus nodala

02.05.2006

*Balance-sheet on December 31, 2005*

<b>Assets</b>	<b>Notes</b>	<b>Year 2005</b>	<b>Year 2004</b>
<b>Long-term investments</b>			
<b>I Intangible investments</b>			
1. Costs from research work and company's development			
2. Concessions, patents, licences, trademarks and similar rights		11461	8914
3. Other intangible investments			
4. Intangible value of the company			
5. Advance payments for intangible investments		25155	2945
<b>Intangible investments in total</b>	7	36616	11859
<b>II Fixed assets</b>		520635	401567
1. Land, premises, buildings, perennial greenery			
2. Long-term investments in leased fixed assets			
3. Equipment and machinery		2264033	1667505
4. Other fixed assets and inventory		31829	33849
5. Establishment of fixed assets and costs of unfinished building sites		20029	21949
6. Advance payments for fixed assets			
<b>Fixed assets in total</b>	8	2836526	2124870
<b>III Long-term financial investments</b>			
1. Participation in the capital of related companies		146000	
2. Loans to the related companies		10000	
3. Participation in the capital of associated companies			4500
4. Loans to the associated companies			
5. Other securities and investments			
6. Other loans			
7. Own equities and shares			
8. Loans to the joint owners and management of the company			
<b>Long-term financial investments in total</b>	9	156000	4500
<b>Long-term investments in total</b>		3029142	2141229
<b>Current assets</b>			
<b>I Stocks</b>			
1. Raw materials, direct materials and auxiliary materials	10	24856	17735
2. Unfinished production	11	325184	262172
3. Finished production and goods for sale	12	14044	27025
4. Unfinished orders			
5. Advance payments for goods		178227	37930
6. Animals for work and productive animals			
<b>Stocks in total</b>		542311	344862
<b>II Debts of debtors</b>	13	589209	399471
1. Debts of buyers and customers			
2. Debts of related companies			
3. Debts of associated companies			
4. Other debtors	14	84369	80997
5. Shares owning in the company's capital			
6. Short-term loans to the joint owners and management of the company			
7. Costs of the next periods	15	5975	2137
<b>Debtors in total</b>		679553	482605
<b>III Securities and participation in capitals</b>			55500
1. Participation in the capital of related companies			
2. Own equities and shares			
3. Other securities and participation in capitals			
<b>Securities and participation in capitals in total</b>		0	55500

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

<b>IV Funds (in total)</b>	16	962727	79220
<b>Current assets in total</b>		2184591	962187
<b>Total sum of assets</b>		5213733	3103416

<b>Liabilities</b>	<b>Notes</b>	<b>Year 2005</b>	<b>Year 2004</b>
<b>I Own capital</b>		387136	387136
1. Stock or share capital (fixed capital)			
2. Stock (share) increase of issue price		1987	1987
3. Long-term investments adjustment reserves			
4. Reserves:			
a) statutory reserves			
b) reserves for own stocks or shares			
c) reserves defined by statutes			
d) other reserves		1126512	751333
Reserves in total		1126512	751333
5. Retained earnings			
a) retained earnings from previous years			
b) retained earnings of the year of account		1092705	471965
Retained earnings in total		1092705	471965
<b>Own capital in total</b>		2608340	1612421
<b>II Accruals</b>			
1. Accruals for pensions and the like liabilities			
2. Accruals for predictable taxes			
3. Other accruals			
<b>Accruals in total</b>		0	0
<b>III Creditors</b>		204366	167325
<b>I Long-term debts</b>			
1. Deferred taxation liabilities			
2. Loans transformable into shares			
3. Loans from credit institutions		173795	59241
4. Other loans		619818	448318
5. Upfront payments received from customers			
6. Debts to suppliers and contract work			
7. Debts to related companies			
8. Debts to associated companies			
9. Taxes and social security payments			
10. Other creditors			
11. Deterred income		130858	
12. Dividends of the year of account			
13. Unpaid dividends from previous years			
Long-term debts in total	17	1128837	674884
<b>II Short-term debts</b>			
1. Funded loans			
2. Loans transformable into shares			
3. Loans from credit institutions	18	80579	181859
4. Other loans	18	407652	293130
5. Upfront payments received from customers		43435	67084
6. Debts to suppliers and contract work		632861	171328
7. Accrued liabilities		48741	12502
8. Debts to related companies			
9. Debts to associated companies			
10. Taxes and social security payments	21	125436	36790
11. Other creditors	20	121067	53245
12. Deterred income		16240	
13. Dividends of the year of account			
14. Unpaid dividends from previous years	19	545	173
Short-term debts to creditors in total		1476556	816111
<b>Creditors in total</b>		2605393	1490995
<b>Total sum of liabilities</b>		5213733	3103416

Board of directors:






Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

VID KRI Saldus nodala

02.05.2006

*Cash flow report for the year 2005*

**Cash flow for the year 2005**

Scheme of the cash flow prepared by the use of the indirect method

<b>Cash flow of basic activity</b>	<b>Year 2005</b>	<b>Year 2004</b>
<b>1. Profit (+) or loss (-) before extraordinary items and correction of taxes:</b>	<b>1278894</b>	<b>531537</b>
a) wear and tear of fixed assets and intangible investments (+)	310086	354653
b) elimination of fixed assets and intangible investments	25177	
c) formation of accruals (except the accruals for insecure debts)	36239	
d) profit (-) or loss (+) from fluctuations of foreign exchange rate	52251	6787
e) income from recognition of financing	-15303	
f) other interest income and the like income	-9405	
g) long-term financial investments and short-term written-off value of securities	-369787	
h) interest payment and the like costs	53435	
<b>2. Profit or loss before corrections of the impact of balance changes of current assets and short-term liabilities</b>	<b>1361587</b>	<b>892977</b>
a) increase (-) or decrease (+) of balance of debtors debts	-337048	-249393
b) increase (-) or decrease (+) of balance of stocks	-54697	-3405
c) increase (-) or decrease (+) of balance of debts payable to suppliers, contractors and other creditors	678269	-44680
<b>3. Gross cash flow from basic activity</b>	<b>1648111</b>	<b>595499</b>
4. Expenses for interest payments	-53435	
5. Expenses for enterprise income tax and immovable property tax	-105047	-59572
<b>6. Cash flow before extraordinary items</b>	<b>1489629</b>	<b>535927</b>
7. Cash flow from extraordinary items		
<b>8. Net cash flow from basic activity</b>	<b>1489629</b>	<b>535927</b>
<b>II. Cash flow from investment activities</b>		
1. Acquisition of stocks or shares of related or associated companies	-156000	-800
2. Incomes from alienation of stocks or shares of related or associated companies	429787	
3. Acquisition of fixed assets and intangible investments	-452213	-546693
4. Incomes from selling fixed assets and intangible investments	76626	60407
5. Received interest	9405	
<b>6. Net cash flow from investments</b>	<b>-92395</b>	<b>-487086</b>
<b>III. Cash flow from financing activities</b>		
1. Received loans	9823	1128154
2. Financing received from EU	162401	
3. Expenses for paying back loans		-1043307
4. Expenses for redemption of fixed assets that were hired	-591867	
5. Paid out dividends	-96414	-58063
<b>6. Net cash flow from financing activities</b>	<b>-516057</b>	<b>26784</b>
<b>IV. Result of the foreign exchange rate fluctuations</b>	<b>2330</b>	
<b>V. Net cash flow of the year of account increase (+), decrease (-)</b>	<b>883507</b>	<b>75625</b>
VI. Money and its equivalent balance at the beginning of the year of account	79220	3595
VII. Money and its equivalent balance at the end of the year of account.	962727	79220

Board of directors:

April 11, 2006




Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

*Statement about changes of equity*

	Stock capital	Increase of stock emission price	Adjustment reserves	Compulsory reserves	Other reserves	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls	
<b>On 31.12.2003</b>	387136	1987		16105	560965	399658	1365851
Impact of the policy change on the result of the year 2003						-167325	-167325
<b>31.12.2003 after corrections</b>	<b>387136</b>	<b>1987</b>		<b>16105</b>	<b>560965</b>	<b>232333</b>	<b>1198526</b>
Calculated dividends						-58070	-58070
Transferred				-16105	16105		
Counted in reserves					174263	-174263	
Profit of the year of account						444957	440957
Impact of the policy change on the results of the year 2004						27008	27008
<b>On 31.12.2004</b>	<b>387136</b>	<b>1987</b>		<b>0</b>	<b>751333</b>	<b>471965</b>	<b>1612421</b>
Calculated dividends						-96786	-96786
Counted in reserves					375179	-375179	
Profit of the year of account						1092705	1092705
<b>31.12.2005</b>	<b>387136</b>	<b>1987</b>		<b>0</b>	<b>1126512</b>	<b>1092705</b>	<b>2608340</b>

Joint-stock company “Saldus Timber Industry” was founded in 1995 with the fixed capital of 108500 LVL, which consists of 108500 stocks. Nominal value of one stock is 1 (one) lat.

On June 6, 2002, the company's statutes were changed. Registered and paid-up capital is of 387136.00 LVL.

Holder of the public controlling stake is “Saldus MRU” Ltd., reg. no 850300288

Board of directors:

April 11, 2006



Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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### General principles

The annual report is drawn up in compliance with the following laws of the Republic of Latvia: the “Accounting Law” and the “Law about Companies’ Annual Reports”. When drawing up the year 2005 annual report, the following standards of accounting in Latvia were applied: 1. “Basic Regulations about Drawing up Financial Statements”, 2. “Cash Flow Statement”, 3. “Developments after the Date of Balance”, 4. “Policy Changes in Accounting, Calculation Changes in Accounting and Errors of the Previous Periods”.

Profit and loss calculation is drawn up in compliance with the scheme of turnover costs.

Profit and loss statement is drawn up by the means of indirect method.

In comparison with the previous period, methods of accounting and estimation, used by the Company, have been changed.

The annual report is drawn up on the basis of continuation of the concept of activity.

#### (1) Net turnover

Net turnover is the total sum of sold production and provided services during one year without trade discounts and value added tax.

#### (2) Foreign currency converted into lats

All transactions in which were used foreign currency are converted into LVL in accordance with the official rate of exchange of the day of transaction, established by the Bank of Latvia.

All monetary assets in foreign currency at the end of the accounting period are converted into lats (LVL) in compliance with the rate of exchange of foreign currency on December 31, established by the Bank of Latvia, and corresponding currency rate differences are reflected in the profit and loss calculations.

Foreign currency rates at the end of the accounting period for the last two years have been following:

	31.12.2004	31.12.2004
	LVL	LVL
1 EUR	0,702804	0,703
1 USD	0,593	0,516
1 RUB	0,0206	
1 SEK	0,0747	
1 EEK	0,0449	

#### (3) Intangible investments

Intangible investments are estimated in compliance with the value of their initial costs, except retained depreciation. Depreciation is calculated by the means of linear method, by applying (20%) rate of wear and tear per year.

#### (4) Fixed assets and low-grade inventory

Fixed assets are estimated in compliance with the value of their initial costs or re-calculated initial value, except retained wear and tear. Wear and tear is calculated by the means of linear method, by applying rates which are based on the assessment of useful lifetime of fixed assets. We begin calculations of wear and tear of fixed assets from the first date of the following months after they have been put into operation and finish on the first date of the next months after its disengagement from the structure of fixed assets.

When the company's income tax is calculated, the wear and tear of fixed assets is calculated in compliance with the Paragraph 3 of the law of the Republic of Latvia “About Company's Income Tax”.

#### (5) Reserves

Raw materials, supplies and goods for sale are estimated by the means of FIFO method (first in, first out). On the whole, the turnover of goods is big. In the company's warehouse there are no dilapidated goods in connection with the total reserve of goods.

Inventory of goods in warehouses is carried out in compliance with FIFO method.

In the balance, cost of reserves is given the lowest (or their market value). Market value is the selling price of stock at the normal operation of a company. If there is such necessity, the value of goods of slow turnover or the value of defective stock, if it is essential, is written off, or there are made stocks of it in the amount, estimated by administration.

**(5) Debtors**

The debts of debtors are estimated by taking into consideration the principle of precaution, and in the balance are shown only real debtors. The actual sum of debtors corresponds with the sum that is given in agreements and other original documents of accounting. There has been carried out the reconciliation of debtors' debts, as well as there have been developed reserves in case of doubtful debtors.

**(6) Investments in subsidiary and related companies**

Investments in subsidiary and related companies initially are registered at their purchase price, which at the end of the accounting year is adjusted in correspondence with the share of company in the capital of subsidiary and related companies. In cases, when the administration thinks that the value of investments has decreased due to force majeure, the value of investments is written off.

**(7) Other long-term investments**

Other long-term investments are given in the purchase costs.

**(8) Taxes**

Income taxes of the year of account are included in the financial statement on the basis of calculations made by the management and in compliance with the legislative acts about taxes of the Republic of Latvia.

Deferred taxation is calculated by the means of the method of liability in regard to all temporary differences between values of assets and liabilities in financial reports and in regard to their values with the aim of tax calculations. Temporary differences mainly appear due to application of different rates of wear and tear of fixed assets, as well as from taxation losses, which must be transferred then to the following periods of taxation. In cases when the total calculation of the result of deferred taxation should be reflected in the actives of balance, it is included in the report only if its recovery is certain.

**(9) Change of the accounting policy and comparative information**

In 2005, the Company calculated the liabilities of deferred tax and in compliance with amendments in the law "About Company's Annual Reports", that came into force on May 26, 2005, they were shown in the balance sheet item "Liabilities of Deferred Tax". The new accounting policy was applied with retroaction; accordingly, the comparative showings for the previous year were adjusted. The impact of accounting policy on comparative showings is given in the statement of circulation of the own capital and in the according appendixes of the financial statement.

If in the year of account the classification of items is changed, then, accordingly, the classification of items for the previous period is changed.

Liabilities for taxes have been compared with the data from the State Revenue Service.

**(10) Accruals due to unused vacations**

Accruals have been made in compliance with LGS No 8 "Accruals, inferred liabilities and inferred assets". In 2004, accruals were calculated from the average amount of unused vacations, therefore this calculation was reflected in the balance sheet in the part of accruals.

In 2005, accruals of vacations were calculated for each separate employee by taking into consideration the average daily wages of each employee and accumulated amount of vacation days, and they are shown in the balance sheet item "Accumulated Liabilities".

In the year 2005 report the balance sheet items for the year 2004 have been reclassified.

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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**Appendix**  
**General notes**

<b>(1) Average number of employees per year</b>		
	<b>2005 LVL</b>	<b>2004 LVL</b>
Average number of employed	<b>182</b>	<b>160</b>
<b>(2) Staff costs</b>		
<b>Staff costs in total</b>	<b>1350693</b>	<b>1074324</b>
- wages	1174859	968367
- social security tax	175834	105957
- inter alia		
Wages of those employed in production (basic activity)		
- wages	660198	416632
- individual piece-work	440885	528783
- social security tax	158233	100428
- total:	1259316	1045843
Management wages		
- wages	55758	22952
- social security tax	13261	5529
- total:	69019	28481
Payments to the council		
- payments	18018	
- social security tax	4340	
- total:	22358	

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

Appendix to the profit and loss calculation

<b>(1) Net turnover</b>		
	<b>2005 LVL</b>	<b>2004 LVL</b>
Incomes from merchandise	9317046	6514030
Int. al. domestic	8685963	6319633
Export	631083	194397
Incomes from provided services (domestic)	269151	152778
	<b>9586197</b>	<b>6666808</b>
<b>(2) Production costs of realised production</b>		
Actual cost of sold production		
Wages of employees	1259316	1045843
Wear and tear of fixed assets	294568	262137
Material costs	3010200	220949
Stem tax	2215207	2024598
Electricity costs	85881	67866
Security, heating	14072	12085
External services	1507732	276540
Other costs	59132	50193
	<b>8446108</b>	<b>5948671</b>
<b>(3) Administration costs (LVL)</b>		
Communication costs	4145	
Office maintenance costs	3832	17307
Costs related to annual report	2642	2638
Bank services	2480	3232
Wages of administration	73776	22952
Administration's social security costs	17601	5529
Legal services	29364	20731
Wear and tear of fixed assets	15518	6540
Business trips	18147	8641
	<b>167505</b>	<b>87570</b>
<b>(4) Other incomes from company's economic activities</b>		
<b>Incomes</b>		
Incomes from sale of capital assets (land)	11091	
Incomes from exchange rate fluctuations		6787
Other incomes	27401	21743
Incomes from the lease of fixed assets		6613
Deterred incomes	15303	
	<b>53795</b>	<b>35143</b>
PL sales are shown in one figure per line other expenses from economic activity		
<b>Expenses</b>		
Losses from the sale of capital assets	36269	58851
Losses from exchange rate fluctuations	52252	
Donations	6014	3450
Accruals for doubtful debtors' debts	6038	13013
Other expenses	20381	4464
Payments into private pension funds	7100	
	<b>128054</b>	<b>779778</b>

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

<b>(5) Interest income and payments and the like costs</b>		
<b>Incomes</b>		
Received % for the balance of account	9405	261
	<b>9405</b>	<b>261</b>
<b>Payments</b>		
Penalties paid	29	1759
Interest paid	53434	20903
	<b>53463</b>	<b>52662</b>

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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Appendix to the balance sheet on 31.12.2005

<b>(7) Intangible investments</b>			
	<b>Intangible investments LVL</b>	<b>Advance payments LVL</b>	<b>Total LVL</b>
<b>Initial value</b>			
31.12.2004	12812	2945	15757
Purchased	5383	22210	27592
Written off			
Transferred			
Reassessed			
31.12.2005	18195	25155	43349
<b>Wear and tear</b>			
31.12.2004	3898		3898
Calculated in year 2005	2835		2835
Written off			
31.12.2005	6734		6734
<b>Residual balance sheet value 31.12.2005</b>	<b>11461</b>	<b>25155</b>	<b>36616</b>
<b>Residual balance sheet value 31.12.2004</b>	<b>8914</b>	<b>2945</b>	<b>11859</b>



Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

<b>(5) Interest income and payments and the like costs</b>		
<b>Incomes</b>		
Received % for the balance of account	9405	261
	<b>9405</b>	<b>261</b>
<b>Payments</b>		
Penalties paid	29	1759
Interest paid	53434	20903
	<b>53463</b>	<b>52662</b>

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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Appendix to the balance sheet on 31.12.2005

<b>(7) Intangible investments</b>			
	<b>Intangible investments LVL</b>	<b>Advance payments LVL</b>	<b>Total LVL</b>
<b>Initial value</b>			
31.12.2004	12812	2945	15757
Purchased	5383	22210	27592
Written off			
Transferred			
Reassessed			
31.12.2005	18195	25155	43349
<b>Wear and tear</b>			
31.12.2004	3898		3898
Calculated in year 2005	2835		2835
Written off			
31.12.2005	6734		6734
<b>Residual balance sheet value 31.12.2005</b>	<b>11461</b>	<b>25155</b>	<b>36616</b>
<b>Residual balance sheet value 31.12.2004</b>	<b>8914</b>	<b>2945</b>	<b>11859</b>

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

<b>(8) Fixed assets</b>						
	<b>Land, premises, buildings LVL</b>	<b>Equipment and machinery LVL</b>	<b>Other fixed assets LVL</b>	<b>Establishme nt of fixed assets  LVL</b>	<b>Unfinished construction works LVL</b>	<b>Total  LVL</b>
<b>Initial value</b>						
31.12.2004	551413	2443613	76253		21949	3093228
Transferred				710316	21949	732265
Purchased	168279	941934	10155	730345		1850713
Written off	6404	238540	8693			2104350
Reconstruction (+)		2263				2263
Reassessed						
31.12.2005	713288	3149269	7715	20029	0	3960301
<b>Wear and tear</b>						
31.12.2004	149846	776108	42404			968358
Calculated	42807	252566	11878			307251
Written off		143437	8396			151833
31.12.2005	192653	885236	45886			1123775
<b>Residual value of balance sheet</b>						
<b>31.12.2004</b>	<b>401567</b>	<b>1667505</b>	<b>33849</b>		<b>21949</b>	<b>2124870</b>
<b>Residual value of balance sheet</b>						
<b>31.12.2005</b>	<b>520635</b>	<b>2264033</b>	<b>31829</b>	<b>20029</b>	<b>0</b>	<b>2836526</b>

The cadastral value of buildings that belong to the company has not been assessed.

The cadastral value of land owned by the company is of 248887 LVL.

Fixed assets owned by the company are pledged as collateral for 1747613 LVL.

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

*Long-term financial investments*

**(9) Participation in the capital of related and associated companies**

	Share of investment (%)	31.12.2005 LVL	31.12.2004 LVL
<b>Other securities</b>			
Holding company Saldus Rural Construction			
<b>Associated companies</b>			
b/o Saldus Internet Centre,	49		4500
Saldus Kuldīgas Street 86			
Pakuļi Sports and Recreation Centre Ltd.	100	146000	
Loan to Pakuļi Sports and Recreation Centre Ltd.		10000	
Reclassification			
Value of investment in balance sheet		156000	4500

In 2005, Saldus Internet Centre Ltd. has not made registration in the Commercial Register, wherewith it has finished its activity and this investment is written off in the expenses of the year 2005.

Shares of Pakuļi Sports and Recreation Centre Ltd. are shown in the purchase price.

**(10) Raw materials, direct materials and auxiliary materials**

	31.12.2005 LVL	31.12.2004 LVL
1) Supplies, parts, fuel	24856	17735
	<b>24856</b>	<b>17735</b>
<b>(11) Unfinished production</b>		
1) Round timber in the forest	96719	177325
2) Round timber at the road and in workshops	149021	84847
3) Lumber	79444	
	<b>325184</b>	<b>262172</b>
<b>(12) Finished products or goods for sale</b>		
1) Lumber	14044	27025
	<b>14044</b>	<b>27025</b>

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

**(13) Debts of buyers and customers**

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
Accounting value of buyers and customers	651458	488714
Accruals for doubtful debtors	62249	89243
	589209	399471

Debtors' debts in the balance sheet are shown in their net value, with the exception of accruals made for unsecured debts of 62249 LVL (in 2005 6038 LVL) and from the accounting value of these debts.

Accruals for debts were made on the basis of the financial situation and assessment of economic activity of several clients, by taking into consideration settlement of the debt in compliance with the concluded agreement and possibilities of getting it back.

An accrual is made for those debtors who 2 years in turn do not reply to collation deeds and are not found at the given address, as well as for the debtors against who has been started a process of insolvency (references from the CR).

The debtors, who are removed from the CR or who have not reregistered from the Enterprise Register to the Commercial Register, are removed from the list of debtors on the basis of the references received from the Commercial Register.

**(14) Other debtors**

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
Accepted VAT	2079	1465
Overpaid taxes in the budget or advance payments of taxes	80265	70274
Advance statements	1125	692
Other debtors	900	8566
	<b>84369</b>	<b>80997</b>

**(15) Deferred costs**

	<b>31.12.2004 LVL</b>	<b>31.12.2003 LVL</b>
Licence costs for the year 2006	5975	2137
	<b>5975</b>	<b>2137</b>

**(16) Money**

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
Money in current accounts	958272	49718
LVL	3162	27592
EUR	1293	1910
Money in the company's cash department	<b>962727</b>	<b>79220</b>

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

**(17) Long-term loans**

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
Liabilities of deferred tax (change of policy)	204366	167325
Long-term loan share for leasing payments	619818	448318
Long-term loan from credit institutions	173795	59241
Deferred incomes	130858	
	<b>1128837</b>	<b>674884</b>

**Liabilities of deferred tax**

Deferred tax is calculated from the following differences of assets and values of commitment balance and from their values with the aim of calculation of the income tax of the company:

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
Temporary difference of the wear and tear of fixed assets and intangible assets	-1411184	-1128004
Accruals for vacation pay	48741	12502
Tax losses		
Temporary difference in total	1362443	1115502
<b>Liabilities of deferred tax</b>	<b>204366</b>	<b>167325</b>

Liabilities are calculated by applying tax rate of 15%.

**Repayment date for long-term loans**

From 2-5 years	793613	507559

**Loans from credit institutions (short-term)**

Name of bank	<b>31.12.2005 LVL</b>	<b>Interest rate %</b>	<b>31.12.2004 LVL</b>
Loan	80579	8	181859
Short-term share of leasing	407652		293130

**(19) Unpaid dividends from previous years**

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
31.12.2004	173	166
Calculated for the year 2004	97000	58070
Paid in the year 2005	96628	58063
31.12.2005	545	173

Joint-stock Company „Saldus Timber Industry”  
Annual Report for the year 2005

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**(20) Other creditors**

	<b>31.12.2005 LVL</b>	<b>31.12.2004 LVL</b>
Wages	111802	53245
Payments into private pension funds	9265	
	<b>121067</b>	<b>53245</b>

**(21) Movement of tax liabilities in 2005**

	<b>31.12.2004</b>	<b>Calculated for the year 2005 LVL</b>	<b>Paid in the year 2005 LVL</b>	<b>31.12.2005</b>
Social security payments	-6872	241525	211700	22953
People's income tax	7688	150475	127978	30185
VAT	-61468	507527	525248	-79189
Business risk duty	-249	784	650	-115
Company's income tax	28187	140652	94541	72298
Immovable property tax	-346	8489	9090	-947
Tax of natural resources	915	1318	2242	-9

Board of directors:

April 11, 2006






## SIA "Pagrabnieces Auditoru Birojs"

Vienotais reģ. Nr. 40002030404, Hospitāļu 8, Rīga, LV-1013, tālr.: 7360657, tālr./fakss: 7360658

### AUDITORS' REPORT

#### To the shareholders of the Joint-Stock Company "SALDUS MEŽRŪPNIECĪBA"

We have audited the financial statements of the Joint-Stock Company "SALDUS MEŽRŪPNIECĪBA" for the year ended 31 December 2005 as set out on pages 6 to 21. The audited financial statements include the balance sheet of the Joint-Stock Company "SALDUS MEŽRŪPNIECĪBA" as at 31 December 2005, the statements of profit and loss, cash flows and changes to the shareholders' equity for the year then ended, and notes to the financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and other disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above financial statements present a true and fair view of the financial position of the Joint-Stock Company "SALDUS MEŽRŪPNIECĪBA" as at 31 December 2005, and its cash flows for the year then ended in accordance with the law *On Annual Reports of Enterprises*, applicable in the Republic of Latvia.

We have also reviewed the management report for 2005 as set out on page 4 of the attached financial statements, and have not noted any material discrepancies between the financial information presented in the management report and that of the financial statements for 2005.

**Nellija Pagrabniece**

Sworn Auditor, Certificate No 87

**SIA "Pagrabnieces Auditoru birojs", Chairman of the Board**

Licence of Commercial Company No 8

Rīga, April 11<sup>th</sup>, 2006