

**Joint-stock Company “Saldus Timber Industry”
Annual Report for the period of 3 months of the year 2006**

Saldus

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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- March 31, 2006

***Joint-stock company “Saldus Timber Industry”
Management report
of the activities for the period of 3 months of year 2006***

Net turnover of the joint-stock company „Saldus Timber Industry” for the period of three months of the year 2006 has been 2.196 million lats, which in comparison with the same period of the year 2005 has increased by 16%.

Gross profit for the period of three months of the year 2005 in comparison with the period of three months of the year 2006 has decreased from 266364 LVL to 251758 LVL. Profit for the accounting period of three months of the year 2006 after tax has been 200069 LVL. During this period purchase of round timber (fir saw logs) from Russia was started, as well the reconstruction of administrative premises was carried out. Besides, the planning of construction works for building a new transport workshop and the project development for a new trade centre as well as the estimation of offers from credit institutions to obtain needed additional financing was carried out.

Board of directors:

April 25, 2006

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 March 31, 2006, 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 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 3 months of the year 2006

Profit and loss account for the period of 3 months of the year 2006

No	Name of parameter	Notes	3 months of the year 2006	3 months of the year 2005
1.	Net turnover		2195950	1888696
2.	Production costs of the sold products		1944191	1622332
3.	Gross profit or loss		251758	266364
4.	Selling costs		421	
5.	Administration costs		35202	14424
6.	Other income from company's economic activities		19614	37861
7.	Other costs from company's economic activities		7235	31510
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		4386	624
11.	Long-term financial investments and short-term writing off of the value of securities			
12.	Interest payments and the like costs		13985	12206
15.	Profit or loss before extraordinary items and taxes		218914	676496
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		218914	676496
19.	Company's income tax		14919	7428
20.	Deferred income tax of the company			
21.	Other taxes		3926	3348
22.	Profit or loss of the year of account (net income)		200069	665720

Board of directors:

April 25, 2006

Joint-stock Company „Saldus Timber Industry”
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Balance-sheet on March 31, 2006

Assets	Notes	Year 2006- 31.03.	Year 2005
Long-term investments			
I Intangible investments			
1. Costs from research work and company's development			
2. Concessions, patents, licences, trademarks and similar rights		10735	11461
3. Other intangible investments			
4. Intangible value of the company			
5. Advance payments for intangible investments		25155	25155
Intangible investments in total		35890	36616
II Fixed assets		558554	520635
1. Land, premises, buildings, perennial greenery			
2. Long-term investments in leased fixed assets			
3. Equipment and machinery		2279898	2264033
4. Other fixed assets and inventory		28804	31829
5. Establishment of fixed assets and costs of unfinished		32425	20029
6. Advance payments for fixed assets			
Fixed assets in total		2899681	2836526
III Long-term financial investments			
1. Participation in the capital of related companies		146000	146000
2. Loans to the related companies		15000	10000
7. Own equities and shares			
8. Loans to the joint owners and management of the company			
Long-term financial investments in total		161000	156000
Long-term investments in total		3096571	3029142
2. Unfinished production		281635	325184
3. Finished production and goods for sale		8741	14044
4. Unfinished orders			
5. Advance payments for goods		86923	178227
6. Animals for work and productive animals			
Stocks in total		406506	542311
II Debts of debtors			
1. Debts of buyers and customers		534245	589209
2. Debts of related companies			
3. Debts of associated companies			
4. Other debtors		62181	84369
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		5975	5975
Debtors in total		602401	679553
III Securities and participation in capitals			
1. Participation in the capital of related companies			
3. Other securities and participation in capitals			
Securities and participation in capitals in total		0	0
IV Funds (in total)		816313	962727
Current assets in total		1825220	2184591
Total sum of assets		4921791	5213733

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 3 months of the year 2006

<u>Liabilities</u>	Notes	Year 2006- 31-03	Year 2005
<i>I Own capital</i>		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	1126512
Reserves in total		1126512	1126512
5. Retained earnings			
a) retained earnings from previous years			
b) retained earnings of the year of account		1092705	
Retained earnings in total		200069	1092705
<i>Own capital in total</i>		2808409	2608340
<i>II Accruals</i>			
1. Accruals for pensions and the like liabilities			
2. Accruals for predictable taxes			
3. Other accruals			
<i>Accruals in total</i>		0	0
<i>III Creditors</i>		204366	204366
<i>I Long-term debts</i>			
1. Deferred taxation liabilities			
2. Loans transformable into shares			
3. Loans from credit institutions		153650	173795
4. Other loans		599162	619818
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		140708	130858
12. Dividends of the year of account			
13. Unpaid dividends from previous years			
Long-term debts in total		1097886	1128837
<i>II Short-term debts</i>			
1. Funded loans			
2. Loans transformable into shares			
3. Loans from credit institutions		80579	80579
4. Other loans		383251	407652
5. Upfront payments received from customers			43435
6. Debts to suppliers and contract work		314710	632861
7. Accrued liabilities		48856	48741
8. Debts to related companies			
9. Debts to associated companies			
10. Taxes and social security payments		118171	125436
11. Other creditors		53143	121067
12. Deterred income		16240	16240
13. Dividends of the year of account			
14. Unpaid dividends from previous years		545	545
Short-term debts to creditors in total		1015496	1476556
<i>Creditors in total</i>		2113382	2605393
<i>Total sum of liabilities</i>		4921791	5213733

Board of directors:

April 25, 2006

Joint-stock Company „Saldus Timber Industry”
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Cash flow report for March 31, 2006

	3 months of the year 2006	3 months of the year 2005
I. Cash flow from basic activity		
Net gain of the year of account (+); losses (-)	200069	665720
Wear and tear and writing-off of fixed assets and intangible assets	78977	89205
Losses from the liquidation of fixed assets (+)		-6736
Profit/loss from the fluctuations of exchange rate	-522	7862
Variations in stocks: increase with “-“; decrease with “+”	135805	-530612
Variations of incomes for the next periods; increase “-“; decrease “+”		1250
Variations of creditors debts: increase with “+”; decrease with “-“	-492011	21255
Variations of debtors debts: increase with “-“; decrease with “+”	77152	-198151
Cash flow from basic activity	-530	49757
II. Cash flow from investments		
Paid when buying fixed assets and added	-95297	-76977
Received for sold fixed assets	19614	
Paid for long-term investments		
Granted loan	-5000	
Received for long-term investments		
Received dividends		
Cash flow from investments	-80683	-76977
III. Cash flow from financing		
Received deposits in the capital		
Received loan	75809	414000
Extinguished debt	-141010	-463990
Paid out dividends		
Received from the emission of shares		
Net cash flow from financial activity	-65201	-49990
Net cash flow and net decrease of its equivalents	-146414	-77210
Money and its equivalents at the beginning of the year of account	962727	79220
Money and its equivalents at the end of the year of account	816313	2010

Board of directors

April 25, 2006

Joint-stock Company „Saldus Timber Industry”
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Statement about changes jo equity.

2006.gada 31.martā		3 months of the year 2006	31.12.2005.
1.	Stock capital		
	On: 01.01.	387136	387137
	increase		
	decrease		
	On: 31.03.	387136	387136
2.	Increase of stock emission price	1987	1987
	On: 01.01.		
	increase		
	decrease		
	On: 31.03.	1987	1987
3.	Adjustment reserves		
	On: 01.01.		
	increase		
	decrease		
	On: 31.03.		
4.	Other reserves	918658	918658
	On: 01.01.		
	increase	0	
	decrease		
	On: 31.03.	1126512	918658
5.	Retained earnings	444957	444957
	On: 01.01.		
	increase	200069	665720
	decrease	444957	0
	On: 31.03.	200069	1110676
6.	Total statement	1752738	1752738
	On: 01.01.		
	On: 31.03.	2808409	2418457

Board of directors:

April 25, 2006

Joint-stock Company „Saldus Timber Industry”
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General principles

The annual report is drawn up in compliance with the 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) 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.

(3) 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 13 of the law of the Republic of Latvia “About Company’s Income Tax”.

(4) 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.

Appendix

Explanations to the balance sheet of 31.03.2006

- Advance payments have decreased for the sum of re-registered fixed assets for which the process of purchase and entry in the Land Register has been finished.
- Debts of buyers and customers have decreased. Remaining amount of debtors debts are shown in their net value, except the accruals for unsecured debts. Accrual is made for the debtors who two years in turn do not respond to collation acts and have not been found at their given address as well as for the debtors who are going through the process of insolvency (in accordance with references from the Enterprise Register).
- The decrease of other debtors is due to VAT overpayment that has been destined for payment of other taxes.
- Coefficient profit for 1 share- 0.52 LVL/ 0.74 EUR 1st quarter of the year 2006
- 1.72 LVL / 2.45 EUR 1st quarter of the year 2005
- Incomes of the next periods are due to finance received from the European Regional Development Foundation.
- Debts to suppliers have decreased due to optimal use of funds and supervision of cash flow.

Board of directors:

April 25, 2006

Prepared by
the chief accountant I. Zeiliša
Phone: 3807044