

**Joint-stock Company “Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006**

Saldus

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Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

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- June 30, 2006

*Joint-stock company “Saldus Timber Industry”
Management report
of the activities for the period of 6 months of year 2006*

Net turnover of the joint-stock company “Saldus Mežrūpniecība” for the period of 6 months of year 2006 has been 4 095 549 LVL, which in comparison with the corresponding period of year 2005 has decreased for 15.4% and for the period of 6 months of year 2006 there has been non-performance of the target turnover of 13.3%.

The significant fall has happened due to lasting closure of forest roads in April and logging ban at the end of May 2006. It was caused by emergency situation announced in Kurzeme District and accordingly has not been planned at the beginning of the year. The said circumstances in June affected the activity of saw mill in Kuldīga Street 86a, since there was lack of raw materials- white wood saw timber.

Planned profit for the period of 6 months before taxes was 141 077 LVL, but real profit is 217 656 LVL and profit after taxes- 176 735 LVL.

In the first half of year 2006 were started purchases of round timber (white wood saw timber) from a subsidiary company 000 “Saldus” situated in Russia and it is being discussed how to increase the amount of purchases from the said company. Besides, there has been carried out a serious strategic planning on how to begin timber cutting in the Russian Federation.

During the accounting period the reconstruction of administration premises has been started and is being continued. Besides, a contract about building a transport workshop in the second half of the year is signed. Moreover, a project for the construction of trade centre has been developed and price inquiry among construction companies concerning construction costs and time limits is being carried out so that the construction of the said trade centre could be started this year in August. Regarding financing of the construction works, offers from credit institutions about their conditions have been received and evaluated and a crediting agreement is being drawn up.

Board:

July 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

LVL:

Statement about changes jo equity.

2006.gada 30.juny		6 months of the year 2006	30.06.2005
1.	Stock capital		
	On: 01.01.	387136	387137
	increase		
	decrease		
	On: 30.06.	387136	387136
2.	Increase of stock emission price		
	On: 01.01.	1987	1987
	increase		
	decrease		
	On: 30.06.	1987	1987
3.	Adjustment reserves		
	On: 01.01.		
	increase		
	decrease		
	On: 30.06.		
4.	Other reserves		
	On: 01.01.	2056620	918658
	Increase		348171
	decrease		
	On: 30.06.	2056620	1266829
5.	Retained earnings		
	On: 01.01.	1092705	444957
	Increase	339332	
	decrease	930108	
	On: 30.06.	339332	1012795
6.	Total statement		
	On: 01.01.	2608340	1752738
	On: 30.06.	2785075	2668747

Board :

july 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

EUR

Statement about changes jo equity.
2006.gada 30.juny

		6 months of the year 2006	30.06.2005
1.	Stock capital		
	On: 01.01.	550845	550845
	increase		
	decrease		
	On: 30.06.	550845	550845
2.	Increase of stock emission price		
	On: 01.01.	2827	2827
	increase		
	decrease		
	On: 30.06.	2827	2827
3.	Adjustment reserves		
	On: 01.01.		
	increase		
	decrease		
	On: 30.06.		
4.	Other reserves		
	On: 01.01.	2926306	1307133
	Increase		495403
	decrease		
	On: 30.06.	2926306	1802535
5.	Retained earnings		
	On: 01.01.	1554779	633117
	Increase	482826	
	decrease	1323424	
	On: 30.06.	482826	1441077
6.	Total statement		
	On: 01.01.	3711333	2493921
	On: 30.06.	3962804	3797285

Board:

July 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

Profit and loss account for the period of 6 months of the year 2006

LVL

No	Name of parameter	Notes	6 months of the year 2006	6 months of the year 2005
1.	Net turnover		4095549	4839326
2.	Production costs of the sold products		3773400	4056832
3.	Gross profit or loss		322149	782494
4.	Selling costs		651	546
5.	Administration costs		88081	39350
6.	Other income from company's economic activities		23030	132128
7.	Other costs from company's economic activities		16969	239320
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		5729	700
11.	Long-term financial investments and short-term writing off of the value of securities			
12.	Interest payments and the like costs		27551	26696
15.	Profit or loss before extraordinary items and taxes		217656	1039197
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		217656	1039197
19.	Company's income tax		36904	22924
20.	Deferred income tax of the company			
21.	Other taxes		4017	3478
22.	Profit or loss of the year of account (net income)		176735	1012795

Board:

julyl 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

Profit and loss account for the period of 6 months of the year 2006

EUR

No	Name of parameter	Notes	6 months of the year 2006	6 months of the year 2005
1.	Net turnover		5827441	6885741
2.	Production costs of the sold products		5369063	5772352
3.	Gross profit or loss		458377	1113389
4.	Selling costs		627	777
5.	Administration costs		125328	55990
6.	Other income from company's economic activities		32769	188001
7.	Other costs from company's economic activities		24145	340522
8.	Income from participation in capitals of subsidiary companies and associated companies of the holding company			611532
9.	Income from securities and loans, which have made long-term investments			
10.	Other interest income and the like income		8151	996
11.	Long-term financial investments and short-term writing off of the value of securities			
12.	Interest payments and the like costs		39201	37985
15.	Profit or loss before extraordinary items and taxes		309696	1478644
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		309696	1478644
19.	Company's income tax		52510	32618
20.	Deferred income tax of the company			
21.	Other taxes		5715	4949
22.	Profit or loss of the year of account (net income)		251471	1441077

Board:

julyl 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

<i>Balance-sheet on Juny 30, 2006</i>		LVL	
Assets	Notes	Year 2006- 30.06.	Year 2005 30.06.
Long-term investments			
I Intangible investments			
1. Costs from research work and company's development			
2. Concessions, patents, licences, trademarks and similar rights		9715	9480
3. Other intangible investments			
4. Intangible value of the company			
5. Advance payments for intangible investments		37155	7905
Intangible investments in total		46870	17385
II Fixed assets		582699	415070
1. Land, premises, buildings, perennial greenery			
2. Long-term investments in leased fixed assets			
3. Equipment and machinery		2224713	1923667
4. Other fixed assets and inventory		25996	35912
5. Establishment of fixed assets and costs of unfinished		131669	31119
6. Advance payments for fixed assets		276086	
Fixed assets in total		3241163	2405768
III Long-term financial investments			
1. Participation in the capital of related companies		151000	
2. Loans to the related companies		24672	
7. Participation in the capital of asociac. companies			4500
8. Loans to the joint owners and management of the company			
Long-term financial investments in total		175672	4500
Long-term investments in total		3463705	2427653
1. Raw materials, direct mater .and auxiliary materials		31061	42258
2. Unfinished production		295774	1067196
3. Finished production and goods for sale		21826	152474
4. Unfinished orders			
5. Advance payments for goods		193678	158791
6. Animals for work and productive animals			
Stocks in total		542339	1420719
II Debts of debtors			
1. Debts of buyers and customers		472621	752755
2. Debts of related companies			
3. Debts of associated companies			
4. Other debtors		55054	126380
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		5987	823
Debtors in total		522662	879958
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			
IV Funds (in total)		259654	163441
Current assets in total		1335655	2464118
Total sum of assets		4799360	4891771

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

<i>Balance-sheet on Juny 30, 2006</i>		EUR	
Assets	Notes	Year 2006- 30.06.	Year 2005 30.06.
Long-term investments			
I Intangible investments			
1. Costs from research work and company's development			
2. Concessions, patents, licences, trademarks and similar rights		13823	13489
3. Other intangible investments			
4. Intangible value of the company			
5. Advance payments for intangible investments		52867	11248
Intangible investments in total		66690	24737
II Fixed assets		829106	590591
1. Land, premises, buildings, perennial greenery			
2. Long-term investments in leased fixed assets			
3. Equipment and machinery		3165481	2737132
4. Other fixed assets and inventory		36989	51098
5. Establishment of fixed assets and costs of unfinished		187348	44278
6. Advance payments for fixed assets		392835	
Fixed assets in total		4611759	3423099
III Long-term financial investments			
1. Participation in the capital of related companies		214854	
2. Loans to the related companies		35105	
7. Participation in the capital of asociac. companies			6403
8. Loans to the joint owners and management of the company			
Long-term financial investments in total		249959	6403
Long-term investments in total		4928408	3454239
1. Raw materials, direct mater .and auxiliary materials		44196	60128
2. Unfinished production		420848	1518483
3. Finished production and goods for sale		31056	216951
4. Unfinished orders			
5. Advance payments for goods		275579	225939
6. Animals for work and productive animals			
Stocks in total		771679	2021501
II Debts of debtors			
1. Debts of buyers and customers		672479	1071074
2. Debts of related companies			
3. Debts of associated companies			
4. Other debtors		78335	179823
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		8519	1171
Debtors in total		759333	1252067
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			
IV Funds (in total)		369454	232556
Current assets in total		1900466	3506124
Total sum of assets		6828874	6960363

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

LVL			
<u>Liabilities</u>	Notes	Year 2006- 30.06	Year 2005- 30.06
<i>I Own capital</i>			
1. Stock or share capital (fixed capital)		387136	387136
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		2056620	1266829
Reserves in total		2056620	1266829
5. Retained earnings			
a) retained earnings from previous years		162597	
b) retained earnings of the year of account		176735	1012795
Retained earnings in total		339332	1012795
<i>Own capital in total</i>		2785075	2668747
<i>II Accruals</i>			
1. Accruals for pensions and the like liabilities			
2. Accruals for predictable taxes			27008
3. Other accruals			12502
<i>Accruals in total</i>			39510
<i>III Creditors</i>			
<i>I Long-term debts</i>			
1. Deferred taxation liabilities		204366	
2. Loans transformable into shares			
3. Loans from credit institutions		147350	180529
4. Other loans		557148	459570
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		139723	112526
12. Dividends of the year of account			
13. Unpaid dividends from previous years			
Long-term debts in total		1048587	752625
<i>II Short-term debts</i>			
1. Funded loans			
2. Loans transformable into shares			
3. Loans from credit institutions		68047	364135
4. Other loans		339531	357429
5. Upfront payments received from customers		1331	2000
6. Debts to suppliers and contract work		401190	488294
7. Accrued liabilities		48856	
8. Debts to related companies			
9. Debts to associated companies			
10. Taxes and social security payments		30524	29830
11. Other creditors		58449	42369
12. Deterred income		17225	49875
13. Dividends of the year of account			
14. Unpaid dividends from previous years		545	96957
Short-term debts to creditors in total		965698	1430889
<i>Creditors in total</i>		2014285	2183514
<i>Total sum of liabilities</i>		4799360	4891771

Board:

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

<u>Liabilities</u>	Notes	EUR	
		Year 2006- 30.06	Year 2005- 30.06
<i>I Own capital</i>			
1. Stock or share capital (fixed capital)		550845	550845
2. Stock (share) increase of issue price		2827	2827
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		2926306	1802535
Reserves in total		2926306	1802535
5. Retained earnings			
a) retained earnings from previous years		231355	
b) retained earnings of the year of account		251471	1441077
Retained earnings in total		482826	1441077
<i>Own capital in total</i>		3962804	3797285
<i>II Accruals</i>			
1. Accruals for pensions and the like liabilities			
2. Accruals for predictable taxes			38429
3. Other accruals			17789
<i>Accruals in total</i>			56218
<i>III Creditors</i>			
<i>I Long-term debts</i>			
1. Deferred taxation liabilities		290787	
2. Loans transformable into shares			
3. Loans from credit institutions		209660	256870
4. Other loans		792750	653909
5. Upfront payments received from customers			
6. Debts to suppliers and contract work			
8. Debts to associated companies			
9. Taxes and social security payments			
10. Other creditors			
11. Deterred income		198807	160110
12. Dividends of the year of account			
13. Unpaid dividends from previous years			
Long-term debts in total		1492004	1070889
<i>II Short-term debts</i>			
1. Funded loans			
2. Loans transformable into shares			
3. Loans from credit institutions		96822	518117
4. Other loans		483109	508576
5. Upfront payments received from customers		1893	2846
6. Debts to suppliers and contract work		570841	694780
7. Accrued liabilities		69518	
8. Debts to related companies			
9. Debts to associated companies			
10. Taxes and social security payments		43432	42444
11. Other creditors		83165	60286
12. Deterred income		24510	70966
13. Dividends of the year of account			
14. Unpaid dividends from previous years		776	137957
Short-term debts to creditors in total		1374065	2035972
<i>Creditors in total</i>		2866070	3106861
<i>Total sum of liabilities</i>		6828874	6960363

Board:

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

Cash flow report for Juny 30, 2006

	LVL	
	6 months of the year 2006	6 months of the year 2005
I. Cash flow from basic activity		
Net gain of the year of account (+); losses (-)	176735	1012795
Wear and tear and writing-off of fixed assets and intangible assets	204342	74368
Losses from the liquidation of fixed assets (+)		45664
Profit/loss from the fluctuations of exchange rate	958	50717
Variations in stocks: increase with “-“; decrease with “+”	15423	-1075857
Advance payments for goods	-15451	
Variations of incomes for the next periods; increase “-“; decrease “+”	-12	1314
Variations of creditors debts: increase with “+”; decrease with “-“	-591108	872346
Variations of debtors debts: increase with “-“; decrease with “+”	145891	-400313
Cash flow from basic activity	-63222	581034
II. Cash flow from investments		
Paid when buying fixed assets and added	-212634	-175711
Received for sold fixed assets	33614	
Advance payments for long-term investments	-276086	
Granted loan	-14672	
Received for long-term investments		
Received dividends		
Cash flow from investments	-469778	-175711
III. Cash flow from financing		
Received deposits in the capital		
Received loan	114297	286508
Extinguished debt	-284370	-607610
Paid out dividends		
Received from the emission of shares		
Net cash flow from financial activity	-170073	-321102
Net cash flow and net decrease of its equivalents	-170073	84221
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	259654	163441

Board:

July 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

Cash flow report for Juny 30, 2006

	EUR	
	6 months of the year 2006	6 months of the year 2005
I. Cash flow from basic activity		
Net gain of the year of account (+); losses (-)	251471	1441077
Wear and tear and writing-off of fixed assets and intangible assets	290752	105816
Losses from the liquidation of fixed assets (+)		64974
Profit/loss from the fluctuations of exchange rate	1363	72164
Variations in stocks: increase with “-“; decrease with “+”	21945	-1530807
Advance payments for goods	-21985	
Variations of incomes for the next periods; increase “-“; decrease “+”	-17	1870
Variations of creditors debts: increase with “+”; decrease with “-“	-841070	1241237
Variations of debtors debts: increase with “-“; decrease with “+”	207584	-569594
Cash flow from basic activity	-89956	826737
II. Cash flow from investments		
Paid when buying fixed assets and added	-302551	-250014
Received for sold fixed assets	47828	
Advance payments for long-term investments	-392835	
Granted loan	-20876	
Received for long-term investments		
Received dividends		
Cash flow from investments	-668434	-250014
III. Cash flow from financing		
Received deposits in the capital		
Received loan	162630	407664
Extinguished debt	-404622	-864551
Paid out dividends		
Received from the emission of shares		
Net cash flow from financial activity	-241992	-456887
Net cash flow and net decrease of its equivalents	-1000382	119836
Money and its equivalents at the beginning of the year of account	1369837	112720
Money and its equivalents at the end of the year of account	369455	232556

Board:

July 25, 2006

Joint-stock Company „Saldus Timber Industry”
Annual Report for the period of 6 months of the year 2006

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 30.06.2006

- Advance payments for fixed assets have increased for the amount of estimated construction services and immovable properties.
- Debts of buyers and customers have decreased. Remainder of debtors debts in the balance are shown in their net worth, except for the reserves that are developed for insecure debts. Reserves are made for the debtors who two years in turn do not respond to the collation reports and are not found in the given addresses as well as for the debtors who are undergoing the process of insolvency (reference from the ER).
- Other debtors: decrease arose because overpayment of VAT was shifted into the payment of other debts.
- Rate profit per one share- 0.46 Ls/ 0.65 EUR for the period of six months of year 2006.
- 2.62 Ls / 3.73 EUR for the period of six months of year 2005
- Incomings of the next periods have resulted from the support from the European Regional Development Fund.
- Debts that we owe to our suppliers have decreased because of optimal use of funds and well kept track of cash flow.
- Loan to an allied enterprise is scheduled for capitalisation by investing into the allied enterprise.

Board:

July 25, 2006

Prepared by
the chief accountant I. Zeiliša
Phone: 3807044