

**Joint-stock Company “Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006**

Saldus

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Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

Information about the company

Name of the company	“Saldus Mežrūpniecība”
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 Mežrūpniecība”, cruiser Gunta Zoltnere, Joint-stock company “Saldus Mežrūpniecība”, auditor Gunvaldis Vēsmiņš, “Laskana” Ltd., president Edgars Gailītis, Saldus MRU Ltd., foreman
Year of account	January 1- December 31, 2006

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

Joint-stock company „Saldus Mežrūpniecība”

Work statement for the period of 12 months in year 2006

Management Report

Profit of Joint-stock company “Saldus mežrūpniecība” from its economic activities over the 12 months period of the year 2006 after tax has been 288 409 LVL. In comparison with the year 2005 it has decreased; compared with the planned profit for the year 2006 278 100 LVL has realized.

Net turnover for the accounting period of 12 months of the year 2006 has been 8 505 006 LVL, which has decreased in comparison with the 12 months period of the year 2005.

In the year 2006, the company cut 206 300m³ of wood and produced 26 550m³ of sawn timber.

Halt of turnover and decrease of profit are both related to outside circumstances because in the first quarter of the year 2006 logging was carried out in areas where there was small amount of growing stock per unit, in addition there were sanitary norms, that had to be taken into consideration and work had to be carried out; the cost of resources was higher than we had expected and operation costs increased. From April 1, 2006 until September 1, 2006 in Saldus Region, where our economic activity is mostly carried out, there was announced an emergency situation due to increasing number of bark beetles, consequently there were introduced logging restrictions and we had to reschedule our economic activity.

In the year 2006, there has been the highest growth of raw material prices; on average it grew for 40%; along with it there was fast growth of sawn timber and sawing by-products prices (such as chippings and woodchip) which let us achieve the planned percentage of cost-benefit ratios although we doubted that the volume of output of the year 2005 would be achieved.

By all means, changes in the job market in the year 2006 forced us to persistently change our payment policy in order to keep our employees.

In the year 2006, in Pskov Region (the Russian Federation) have been established two subsidiary companies OOO „Салдус” and OOO „Салдус лес”, with a common goal to develop there logging business and wood processing. There has been signed a contract about purchase of immovable property- buildings, which are still in the process of construction, and in the future there will be placed our production line, which we purchased in Finland and which will be used for wood processing operations. The space of the immovable property is 2.8 ha; the total interior space of the buildings is 3600 m² and they were purchased for 15 064 000 RUB. ¼ of its total space will be used for our production line, which we purchased for 129 000 LVL.

In the year 2006, we have carried out intense construction and reconstruction of planned units; our administration building was put into operation, we have 90% finished construction of our transport repair shop, trade centre, sorting line and building for our dry timber.

Planned costs of the construction work were 1 750 000LVL; so far we have spent 1 708 500 LVL. Bank loan 1 579 300LVL. We have purchased forest land for 347 000 LVL.

Purchase of other fixed assets for 170 000 LVL.

In summer of the year 2006, we received three international certificates: ISO 9001:2000 (Quality Management System), ISO 14001:2004 (Environmental Administration System), OHSAS 18001: 1999 (System for Assessing of Professional Health and Security).

Since the end of the accounting period and until now there has not happened anything significant that might have influenced financial situation of the company.

January 25th, 2007

Board of the joint-stock company “Saldus Mežrūpniecība”

Chairman of the board

Members of the board

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

LVL:

Statement about changes in equity.

On december 31 of the year 2006		12 months of the year 2006	31.12.2005
1.	Stock capital		
	On: 01.01.	387136	387137
	increase		
	decrease		
	On: 13.12.	387136	387136
2.	Increase of stock emission price		
	On: 01.01.	1987	1987
	Increase		
	decrease		
	On: 31.12.	1987	1987
3.	Adjustment reserves		
	On: 01.01.		
	Increase		
	decrease		
	On: 31.12.		
4.	Other reserves		
	On: 01.01.	2056620	751333
	Increase		375179
	decrease		
	On: 31.12.	2056620	1126512
5.	Retained earnings		
	On: 01.01.	1092705	471965
	Increase	288409	1092705
	decrease		471965
	On: 31.12.	288409	1092705
6.	Total statement		
	On: 01.01.	2608340	1612421
	On: 31.12.	2734152	2608340

Board :

January 25, 2007

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

EUR

Statement about changes in equity.

On december 31 of the year 2006		12 months of the year 2006	31.12.2005
1.	Stock capital		
	On: 01.01.	550846	550846
	increase		
	decrease		
	On: 31.12.	550846	550846
2.	Increase of stock emission price		
	On: 01.01.	2827	2827
	increase		
	decrease		
	On: 31.12.	2827	2827
3.	Adjustment reserves		
	On: 01.01.		
	increase		
	decrease		
	On: 31.12.		
4.	Other reserves		
	On: 01.01.	2926306	1069051
	Increase		533832
	decrease		
	On: 31.12.	2926306	1602882
5.	Retained earnings		
	On: 01.01.	1554779	671546
	Increase	410369	1554779
	decrease		
	On: 31.12.	410369	1554779
6.	Total statement		
	On: 01.01.	3711333	2294268
	On: 31.12.	3890347	3711333

Board:

January 25, 2007

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

Profit and loss account for the period of 12 months of the year 2006

LVL

No	Name of parameter	Notes	12 months of the year 2006	of the year 2005
1.	Net turnover		8505006	9586197
2.	Production costs of the sold products		7858113	8446108
3.	Gross profit or loss		646893	1140089
4.	Selling costs		1037	5160
5.	Administration costs		247809	167505
6.	Other income from company's economic activities		36134	53795
7.	Other costs from company's economic activities		49011	128054
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		6166	9405
11.	Long-term financial investments and short-term writing off of the value of securities			
12.	Interest payments and the like costs		74964	53463
15.	Profit or loss before extraordinary items and taxes		316372	1278894
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		316372	1278894
19.	Company's income tax		17098	140642
20.	Deferred income tax of the company			37041
21.	Other taxes		10865	8506
22.	Profit or loss of the year of account (net income)		288409	1092705

Board:

January 25, 2007

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

Profit and loss account for the period of 12 months of the year 2006

EUR

No	Name of parameter	Notes	12 months of the year 2006	of the year 2005
1.	Net turnover		12101533	13639929
2.	Production costs of the sold products		11181088	12017729
3.	Gross profit or loss		920445	1622200
4.	Selling costs		1476	7342
5.	Administration costs		352600	238338
6.	Other income from company's economic activities		51414	76543
7.	Other costs from company's economic activities		69736	182204
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		8775	13383
11.	Long-term financial investments and short-term writing off of the value of securities			
12.	Interest payments and the like costs		106664	76071
15.	Profit or loss before extraordinary items and taxes		450158	1819703
16.	Extraordinary income			
17.	Extraordinary costs			
18.	Profit or loss before taxes		450158	1819703
19.	Company's income tax		24328	200116
20.	Deferred income tax of the company			52705
21.	Other taxes		15460	12103
22.	Profit or loss of the year of account (net income)		410370	1554779

Board:

January 25, 2007

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

<i>Balance-sheet on december 31, 2006</i>		LVL	
Assets	Notes	Year 2006	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		8182	11461
3. Other intangible investments			
4. Intangible value of the company			
5. Advance payments for intangible investments		29250	25155
Intangible investments in total		37432	36616
II Fixed assets		1017575	520635
1. Land, premises, buildings, perennial greenery			
2. Long-term investments in leased fixed assets			
3. Equipment and machinery		2259399	2264033
4. Other fixed assets and inventory		21399	31829
5. Establishment of fixed assets and costs of unfinished		1306678	20029
6. Advance payments for fixed assets		39229	
Fixed assets in total		4644280	2836526
III Long-term financial investments			
1. Participation in the capital of related companies		151367	146000
2. Loans to the related companies		207276	10000
7. Participation in the capital of asociac. companies			
8. Loans to the joint owners and management of the company			
Long-term financial investments in total		358643	156000
Long-term investments in total		5040355	3029142
1. Raw materials, direct mater .and auxiliary materials		15599	24856
2. Unfinished production		731300	325184
3. Finished production and goods for sale		8921	14044
5. Advance payments for goods		141253	178227
6. Animals for work and productive animals			
Stocks in total		897073	542311
II Debts of debtors			
1. Debts of buyers and customers		437043	589209
2. Debts of related companies			
3. Debts of associated companies			
4. Other debtors		277071	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		12725	5975
Debtors in total		726839	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			
IV Funds (in total)		10826	962727
Current assets in total		1634738	2184591
Total sum of assets		6675093	5213733

Joint-stock Company „Saldus Mežrūpniecība”
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<i>Balance-sheet on december 31, 2006</i>		EUR	
Assets	Notes	Year 2006	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		11642	16308
3. Other intangible investments			
4. Intangible value of the company			
5. Advance payments for intangible investments		41619	35792
Intangible investments in total		53261	52100
II Fixed assets		1447879	740797
1. Land, premises, buildings, perennial greenery			
2. Long-term investments in leased fixed assets			
3. Equipment and machinery		3214835	3221429
4. Other fixed assets and inventory		30448	45289
5. Establishment of fixed assets and costs of unfinished		1859235	28499
6. Advance payments for fixed assets		55818	
Fixed assets in total		6608215	4036014
III Long-term financial investments			
1. Participation in the capital of related companies		215376	207738
2. Loans to the related companies		294928	14229
7. Participation in the capital of asociac. companies			
8. Loans to the joint owners and management of the company			
Long-term financial investments in total		510304	221967
Long-term investments in total		7171780	4310081
1. Raw materials, direct mater .and auxiliary materials		22195	35367
2. Unfinished production		1040546	462695
3. Finished production and goods for sale		12693	19983
4. Unfinished orders			
5. Advance payments for goods		200985	253594
6. Animals for work and productive animals			
Stocks in total		1276419	771639
II Debts of debtors			
1. Debts of buyers and customers		621856	838369
2. Debts of related companies			
3. Debts of associated companies			
4. Other debtors		394237	120046
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		18106	8502
Debtors in total		1034199	966917
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)		15404	1369837
Current assets in total		2326022	3108393
Total sum of assets		9497802	7418474

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

LVL			
<u>Liabilities</u>	Notes	Year 2006	Year 2005
<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	1126512
Reserves in total		2056620	1126512
5. Retained earnings			
a) retained earnings from previous years			
b) retained earnings of the year of account		288409	1092705
Retained earnings in total		288409	1092705
<i>Own capital in total</i>		2734152	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>			
<i>III Creditors</i>			
<i>I Long-term debts</i>			
1. Deferred taxation liabilities		204366	204366
2. Loans transformable into shares			
3. Loans from credit institutions		1815355	173795
4. Other loans		354822	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		139723	130858
12. Dividends of the year of account			
13. Unpaid dividends from previous years			
Long-term debts in total		2514266	1128837
<i>II Short-term debts</i>			
1. Funded loans			
2. Loans transformable into shares			
3. Loans from credit institutions		578448	80579
4. Other loans		223513	407652
5. Upfront payments received from customers		108453	43435
6. Debts to suppliers and contract work		364198	632861
7. Accrued liabilities		48856	48741
8. Debts to related companies			
9. Debts to associated companies			
10. Taxes and social security payments		21050	125436
11. Other creditors		64932	121067
12. Deterred income		17225	16240
13. Dividends of the year of account			
14. Unpaid dividends from previous years			545
Short-term debts to creditors in total		1426675	1476556
<i>Creditors in total</i>		3940941	2605393
<i>Total sum of liabilities</i>		6675093	5213733

Board:

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

		EUR	
<u>Liabilities</u>	Notes	Year 2006	Year 2005
<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	1602882
Reserves in total		2926306	1602882
5. Retained earnings			
a) retained earnings from previous years			
b) retained earnings of the year of account		410370	1554779
Retained earnings in total		410370	1554779
<i>Own capital in total</i>		3890348	3711333
<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>			
<i>III Creditors</i>			
<i>I Long-term debts</i>			
1. Deferred taxation liabilities		290787	290787
2. Loans transformable into shares			
3. Loans from credit institutions		2583017	247288
4. Other loans		504867	881922
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	186194
12. Dividends of the year of account			
13. Unpaid dividends from previous years			
Long-term debts in total		3577478	1606191
<i>II Short-term debts</i>			
1. Funded loans			
2. Loans transformable into shares			
3. Loans from credit institutions		823057	114654
4. Other loans		318031	580037
5. Upfront payments received from customers		154314	61802
6. Debts to suppliers and contract work		518206	900480
7. Accrued liabilities		69516	69352
8. Debts to related companies			
9. Debts to associated companies			
10. Taxes and social security payments		29952	178479
11. Other creditors		92390	172264
12. Deterred income		24510	23107
13. Dividends of the year of account			
14. Unpaid dividends from previous years			775
Short-term debts to creditors in total		2029976	2100950
<i>Creditors in total</i>		5607454	3707141
<i>Total sum of liabilities</i>		9497802	7418474

Board:

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

Cash flow report for december 31, 2006

	12 months of the year 2006	LVL year 2005
I. Cash flow from basic activity		
Net gain of the year of account (+); losses (-)	288409	1092705
Wear and tear and writing-off of fixed assets and intangible assets	407041	335263
Losses from the liquidation of fixed assets (+)		52251
Profit/loss from the fluctuations of exchange rate		
Variations in stocks: increase with “-“; decrease with “+”	-391736	-54697
Advance payments for goods	36974	
Variations of incomes for the next periods; increase “-“; decrease “+”	-6750	
Variations of creditors debts: increase with “+”; decrease with “-“	-354200	584753
Variations of debtors debts: increase with “-“; decrease with “+”	-40536	-337048
Cash flow from basic activity	-60798	1673227
II. Cash flow from investments		
Paid when buying fixed assets and added	-885636	-452213
Received for sold fixed assets	-1329973	76626
Advance payments for long-term investments	-5367	-525787
Received / granted a loan to related companies	-197276	
Received for long-term investments		429787
Received dividends		
Cash flow from investments	-2418252	-471587
III. Cash flow from financing		
Received deposits in the capital		
Received loan	2479546	181629
Extinguished debt	-789048	-403348
Paid out dividends	-163349	-96414
Received from the emission of shares		
Net cash flow from financial activity	1527149	-318133
Net cash flow and net decrease of its equivalents	-951901	883507
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	10826	962727

Board:

January 25, 2007

Joint-stock Company „Saldus Mežrūpniecība”
Annual Report for the period of 12 months of the year 2006

Cash flow report for december 31, 2006

	EUR	
	12 months of the year 2006	year 2005
I. Cash flow from basic activity		
Net gain of the year of account (+); losses (-)	410370	1554779
Wear and tear and writing-off of fixed assets and intangible assets	579167	477036
Losses from the liquidation of fixed assets (+)		74346
Profit/loss from the fluctuations of exchange rate		
Variations in stocks: increase with “-“; decrease with “+”	-557390	-77827
Advance payments for goods	52609	
Variations of incomes for the next periods; increase “-“; decrease “+”	-9604	
Variations of creditors debts: increase with “+”; decrease with “-“	-503982	832029
Variations of debtors debts: increase with “-“; decrease with “+”	-57678	-479576
Cash flow from basic activity	-86508	2380787
II. Cash flow from investments		
Paid when buying fixed assets and added	-1260146	-643441
Received for sold fixed assets	-1892381	109029
Advance payments for long-term investments	-7636	-748128
Received / granted a loan to related companies	-280699	
Received for long-term investments		611532
Cash flow from investments	-3440862	-671008
III. Cash flow from financing		
Received deposits in the capital		
Received loan	3528076	258435
Extinguished debt	-1122714	-573912
Paid out dividends	-232425	-137185
Received from the emission of shares		
Net cash flow from financial activity	2172937	-452662
Net cash flow and net decrease of its equivalents	-1354433	1257117
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	15404	1369837

Board:

January 25, 2007

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

Appendix

Explanations to the balance on 31.12.2006

- Long-term investments have increased due to the purchasing of immovable property (forest land), putting into operation new production buildings and purchasing of new production lines. Construction works are being carried out, and next year new production buildings will be put into operation.
- In the year 2006, two new subsidiary companies were established in which were made long-term investments.
- Stocks of unfinished logging production have significantly increased.
- Residuals of debtors' debts in the balance sheet are shown in their net value except for the accruals that are made for insecure debts. The accruals are made for the debtors, who two years in turn do not respond to collation deeds and are not found in their given place of residence, as well as for the debtors, who are going through the process of insolvency (reference from the ER).
- Increase of the debts of other debtors has occurred due to the active construction work and significant growth of VAT and mandatory expenses. As a result of it in the year 2006 Company's Income Tax that was paid as an advanced payment makes surplus payment of Company's Income tax.
- When the big construction project was launched, a bank loan was taken which significantly increases the sum of creditors.
- Rate profit for one stock- 0.75 LVL / 1.06 EUR for the period of 12 months,
year 2006.
- 2.82 LVL / 4.02 EUR for the period of 12 months,
year 2005.

Board:

January 25th, 2007

Prepared by
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