

JOINT STOCK COMPANY STRENČU MRS
ENTERPRISE REGISTER NUMBER 40003009124)

ANNUAL REPORT (UNAUDIT)
FOR THE PERIOD ENDED 31 MARCH, 2007

(17th financial year)

Silvas Lejas, 2007

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General information

Name of the company	A/s Strenču MRS	
Legal status of the company	Joint stock company	
Number, place and date of registration	000 300 912 Riga, 20 June 1991	
Registered office	Silvas Lejas, Launkalnes pagasts, Valka region, Latvia, LV-4729	
Major shareholders	SIA PATA AB – 461 000 shares (49.87%) Mārtiņš Kvēps – 306 960 shares (33.20%)	
Board members	Andris Krastiņš, Chairman of the Board Rihards Romanovskis, Deputy Chairman of the Board Aldis Strankājs, Board Member	
Council Members	<i>From 30 April 2005</i> Uldis Mierkalns Lolita Burkovska Jānis Leimanis Mārtiņš Kvēps Jānis Mierkalns	
Auditors	Ginta Jaunzeme Sworn Auditor Certificate No. 16	SIA Konsults

Income statement

	Notes	2007 3 m LVL	2006 3 m LVL	2007 3 m EUR	2006 3 m EUR
				0,702804	
Net turnover	2	1 489 688	971 340	2 119 635	1 382 092
Cost of sales	3	(1 010 703)	(908 942)	(1 438 101)	(1 293 308)
Gross profit or loss		478 985	62 397	681 534	88 783
Distribution costs	4	(87 764)	(84 105)	(124 877)	(119 671)
Administrative expense	5	(22 637)	(17 377)	(32 210)	(24 725)
Other operating income		908	1 543	1 292	2 196
Other operating expense		(7 237)	(4 951)	(10 297)	(7 044)
Interest receivable and similar income		2	4	2	5
Interest payable and similar income	6	(32 373)	(8 142)	(46 063)	(11 585)
Profit or loss before taxes		329 882	(50 630)	469 380	(72 040)
Corporate income tax				-	-
Other taxes	7	(495)	(147)	(704)	(210)
Profit or loss for the reporting year		329 388	(50 777)	468 676	(72 249)

Earnings per share (EPS)

0,356

-0,055

0,507

-0,078

The accompanying notes form an integral part of these financial statements.

Balance sheet

ASSETS

	Notes	31.Mar.07 LVL	31.Mar.06 LVL	31.Mar.07 EUR	31.Mar.06 EUR
NON-CURRENT ASSETS					
Intangible fixed assets					
Concessions, patents, licences and similar rights		1 274	2 171	1 813	3 090
TOTAL	8	1 274	2 171	1 813	3 090
Tangible fixed assets					
Land, buildings, constructions and perennial plants		495 040	310 755	704 378	442 165
Equipment and machinery		460 441	538 240	655 149	765 847
Other fixtures and fittings, tools and equipment		4 235	7 359	6 026	10 470
TOTAL	9	959 716	856 354	1 365 553	1 218 482
TOTAL NON-CURRENT ASSETS		960 990	858 526	1 367 366	1 221 572
CURRENT ASSETS					
Inventories					
Raw materials		789 282	280 415	1 123 047	398 994
Finished goods and goods for resale		39 781	32 617	56 603	46 410
Prepayments for goods		2 000	2 000	2 846	2 846
TOTAL		831 063	315 033	1 182 496	448 250
Receivables					
Trade receivables		1 232 517	712 570	1 753 713	1 013 895
Other receivables	10	42 495	27 883	60 465	39 674
Prepaid expense	11	10 245	15 361	14 577	21 856
TOTAL		1 285 257	755 814	1 828 755	1 075 426
Cash (TOTAL)		954	19 294	1 357	27 452
TOTAL CURRENT ASSETS		2 117 274	1 090 139	3 012 609	1 551 128
TOTAL ASSETS		3 078 264	1 948 664	4 379 975	2 772 700

The accompanying notes form an integral part of these financial statements.

EQUITY AND LIABILITIES

	Notes	31.Mar.07 LVL	31.Mar.06 LVL	31.Mar.07 EUR	31.Mar.06 EUR
CAPITAL AND RESERVES					
Share capital	12	924 400	924 400	1 315 303	1 315 303
Retained earnings:				0,702804	
for the last period		206 796	110 635	294 244	157 419
for the period		329 388	(50 777)	468 676	(72 249)
TOTAL EQUITY		1 460 583	984 258	2 078 223	1 400 473
PROVISIONS FOR LIABILITIES AND CHARGES					
Provisions for expected taxes		30 274	20 061	43 076	28 544
Other provisions		17 707	15 417	25 195	21 936
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES		47 981	35 478	68 271	50 481
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	14	115 319	307 149	164 084	437 034
Other liabilities	13	152 067		216 372	
TOTAL		267 386	307 149	380 456	437 034
Current liabilities					
Loans from credit institutions	14	1 099 314	430 383	1 564 183	612 380
Other liabilities	13	36 633		52 123	
Trade payables		103 402	163 190	147 128	232 198
Taxes payable	15	46 288	12 598	65 862	17 925
Other liabilities	16	16 677	15 609	23 729	22 210
TOTAL		1 302 314	621 780	1 853 026	884 713
TOTAL LIABILITIES		1 569 700	928 929	2 233 482	1 321 747
TOTAL EQUITY AND LIABILITIES		3 078 264	1 948 665	4 379 975	2 772 700

The accompanying notes form an integral part of these financial statements.

Cash flow statement

	2007 3 m LVL	2006 3 m LVL	2007 3 m EUR	2006 3 m EUR
I Cash flows from operating activities			0,702804	
Net profit before extraordinary items and taxes	329 882	(50 630)	469 380	(72 040)
Adjustments for:				
Depreciation and amortisation	57 046	59 074	81 169	84 055
Interest income/expense	18 737		26 660	
<i>Operating profit before working capital changes</i>	<i>405 665</i>	<i>8 444</i>	<i>577 209</i>	<i>12 015</i>
(Increase)/ decrease in inventories	(110 053)	154 208	(156 591)	219 418
(Increase)/ decrease in receivables	(476 111)	(231 068)	(677 445)	(328 780)
Change in prepaid expense	1 927	(4 675)	2 742	(6 652)
Increase/ (decrease) in payables	27 661	101 957	39 358	145 072
<i>Cash generated from operations</i>	<i>(150 911)</i>	<i>28 866</i>	<i>(214 727)</i>	<i>41 073</i>
Interest paid	(18 739)		(26 663)	
Corporate income tax paid			-	-
Real estate tax paid	(495)	(147)	(704)	(209)
<i>Cash flow before extraordinary items</i>	<i>(170 145)</i>	<i>28 719</i>	<i>(242 095)</i>	<i>40 864</i>
Net cash flows from operating activities	(170 145)	28 719	(242 095)	40 864
II Cash flows to investing activities				
Purchase of fixed assets	(2 010)	(82)	(2 860)	(117)
Proceeds from disposal of fixed assets			-	-
Interest received	2		3	
Net cash flows to investing activities	(2 008)	(82)	(2 857)	(117)
III Cash flows from financing activities				
Change in borrowings	177 153	(34 128)	252 066	(48 560)
Payment of finance lease liabilities	(12 210)		(17 373)	
Net cash flows from financing activities	164 943	(34 128)	234 693	(48 560)
IV Net cash flows foreign currency exchange				-
V Change in cash and cash equivalents	(7 210)	(5 491)	(10 259)	(7 813)
VI Cash and cash equivalents at the beginning of the reporting year	8 164	24 785	11 616	35 266
VII Cash and cash equivalents at the end of the reporting year	954	19 294	1 357	27 453

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

	LVL	Share capital	Reserves	Retained earnings for the last period	Retained earnings	Total
2005. gada 1. janvārī		924 400	-	259 821	(258 053)	926 168
Profit for the reporting year		-	-	-	108 867	108 867
Retained earnings for the last period		-	-	(258 053)	258 053	-
2006. gada 1. janvārī		924 400	-	1 768	108 867	1 035 035
Profit for the reporting year		-	-	-	(50 777)	(50 777)
Retained earnings for the last period		-	-	108 867	(108 867)	-
2006. gada 31. martā		924 400	-	110 635	(50 777)	984 258
2006. gada 1. janvārī		924 400	-	1 768	108 867	1 035 035
Profit for the reporting year		-	-	-	142 381	142 381
Dividends paid from the previous year's profit		-	-	(46 220)	-	(46 220)
Retained earnings for the last period		-	-	108 867	(108 867)	-
2007. gada 1. janvārī		924 400	-	64 415	142 381	1 131 196
Profit for the reporting year		-	-	-	329 388	329 388
Retained earnings for the last period		-	-	142 381	(142 381)	-
2007. gada 31. martā		924 400	-	206 796	329 388	1 460 584
	EUR				0,702804	
2005. gada 1. janvārī		1 315 303	-	369 692	(367 176)	1 317 818
Profit for the reporting year		-	-	-	154 904	154 904
Retained earnings for the last period		-	-	(367 176)	367 176	-
2006. gada 1. janvārī		1 315 303	-	2 516	154 904	1 472 722
Profit for the reporting year		-	-	-	(72 249)	(72 249)
Retained earnings for the last period		-	-	154 904	(154 904)	-
2006. gada 31. martā		1 315 303	-	157 419	(72 249)	1 400 473
2006. gada 1. janvārī		1 315 303	-	2 516	154 904	1 472 722
Profit for the reporting year		-	-	-	202 590	202 590
Dividends paid from the previous year's profit		-	-	(65 765)	-	(65 765)
Retained earnings for the last period		-	-	154 904	(154 904)	-
2007. gada 1. janvārī		1 315 303	-	91 654	202 590	1 609 547
Profit for the reporting year		-	-	-	468 676	468 676
Retained earnings for the last period		-	-	202 590	(202 590)	-
2007. gada 31. martā		1 315 303	-	294 244	468 676	2 078 223

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

Basis of preparation

The financial statements of SIA Strenču MRS have been prepared in accordance with the law of the Republic of Latvia On Financial Statements of Companies and Latvian accounting standards.

The financial statements are prepared according the principle of historical cost basis.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2007 through 31 March 2007.

Compared to the previous period, the accounting policies and methods have remained unchanged.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are retranslated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Tangible fixed assets

Property, plant and equipment are stated at cost less accumulated depreciation. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is calculated starting with the following month after the tangible fixed asset is put into operation or engaged in commercial activity. When tangible fixed assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The following depreciation rates were established and applied:

	% per annum
<i>Buildings and constructions</i>	5-10
<i>Office equipment and inventory</i>	20
<i>Computers and appliances</i>	35
<i>Technological equipment and machinery</i>	20
<i>Other tangible fixed assets</i>	20-50

The value of items acquired below LVL 50 has been booked as an expense.

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the fixed assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. In situations where it can be clearly demonstrated that the expenses have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenses are capitalized as an additional cost of property, plant and equipment.

Expenses related to leasehold improvements are capitalized as tangible fixed assets and depreciated over the lease period on a straight-line basis.

Construction in progress represents tangible fixed assets under construction and is stated at historical cost or as appropriate. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Intangible fixed assets

Intangible fixed assets are stated at cost and amortised over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible fixed assets are amortised over 5 years period on the straight-line basis.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- raw materials – purchase cost on a first-in, first-out (FIFO) basis;
- finished goods at cost of purchased felling sites.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Balances are disclosed at the original invoice amount less provisions made. Bad debts are written off when recovery is deemed impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Loans and borrowings

All loans and borrowings are initially recognised at cost.

After initial recognition, loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement as interest income/ expense when the liabilities are derecognised through the amortisation process.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to produce a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over their estimated useful lives on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

Revenue is recognised by reference to the stage of completion.

Interest

Revenue is recognised as the interest accrues.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Corporate income tax

Corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred corporate income tax liability is determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortization and depreciation on the Company's fixed assets.

2. Net turnover

<i>By business segments</i>	LVL		EUR	
	2007 3 m	2006 3 m	2007 3 m	2006 3 m
Sales of round timber	1454602	820087	2069712	1166879
Income from forestry services	544	1206	774	1716
Income from services	34542	150047	49149	213497
TOTAL:	1489688	971340	2119635	1382092

3. Cost of sales

	LVL		EUR	
	2007 3 m	2006 3 m	2007 3 m	2006 3 m
Stump fee	684429	515838	973855	733971
Wages	58442	54745	83155	77895
Raw material, spare parts, fuel	79237	122616	112745	174467
Depreciation	57045	59074	81168	84055
Statutory social insurance contributions	13976	13048	19886	18566
Electricity	1750	1603	2490	2281
Services, works	104451	134570	148620	191476
Other costs	11261	7218	16023	10270
Change in inventories of finished goods and work in progress	112	214	159	304
Natural resources tax		16	0	23
TOTAL:	1010703	908942	1438101	1293308

4. Distribution costs

	LVL		EUR	
	2007 3 m	2006 3 m	2007 3 m	2006 3 m
Transport costs	87764	84105	124877	119671
TOTAL:	87764	84105	124877	119671

5. Administrative expense

	LVL		EUR	
	2007 3 m	2006 3 m	2007 3 m	2006 3 m
Salaries and wages	11668	9523	16602	13550
Statutory social insurance contributions	2679	2158	3812	3070
Office maintenance	4964	2547	7063	3624
Other expense	3326	3149	4733	4481
TOTAL:	22637	17377	32210	24725

6. Interest payable and similar expense

	LVL		EUR	
	2007 3 m	2006 3 m	2007 3 m	2006 3 m
Loan interest payments and lease payments	18739	8054	26663	11460
Penalties paid	13252	1	18856	1
Other expense	382	87	544	124
TOTAL:	32373	8142	46063	11585

7. Other taxes

	LVL		EUR	
	2007 3 m	2006 3 m	2007 3 m	2006 3 m
Real estate tax on buildings	341	45	485	64
Real estate tax on land	154	102	219	146
TOTAL:	495	147	704	210

8. Intangible fixed assets

	Software licences	TOTAL LVL	TOTAL EUR
Acquisition value as of 01/01/2007	4 701	4 701	6 689
2007 Additions	-	-	0
Acquisition value as of 31/03/2007	4 701	4 701	6 689
Accumulated amortisation as of 01/01/2007	3 231	3 231	4 597
2007 Amortisation	196	196	279
Accumulated amortisation as of 31/03/2007	3 427	3 427	4 876
Net carrying amount as of 01/01/2007	1 470	1 470	2 092
Net carrying amount as of 31/03/2007	1 274	1 274	1 813

9. Tangible fixed assets

	Land	Buildings and constructions	Equipment and machinery	Other tangible fixed assets	TOTAL LVL	TOTAL EUR
Acquisition value as of 01/01/2007	483 952	35 259	1 106 007	17 691	1 642 909	2 337 649
Additions			2 010		2 010	2 860
2007 Adjustment					-	-
Disposals				(124)	(124)	(176)
Acquisition value as of 31/03/2007	483 952	35 259	1 108 017	17 567	1 644 796	2 340 334
Accumulated depreciation as of 01/01/2007		23 854	591 742	12 757	628 353	894 066
2007 Depreciation		317	55 834	699	56 850	80 890
Depreciation of disposals				(124)	(124)	(176)
Accumulated depreciation as of 31/03/2007	-	24 171	647 576	13 332	685 079	974 780
Net carrying amount as of 01/01/2007	483 952	11 405	514 265	4 934	1 014 556	1 443 583
Net carrying amount as of 31/03/2007	483 952	11 088	460 441	4 235	959 716	1 365 553

10. Other receivables

	LVL		EUR	
	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
VAT refundable from the state budget	14954	7775	21278	11063
Overpayment of corporate income tax		2426		3452
Other receivables	27541	17682	39187	25159
TOTAL:	42495	27883	60465	39674

11. Prepaid expense

	LVL		EUR	
	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
Insurance of fixed assets	9935	11370	14136	16178
For quotation in the Free list		3750		5336
Subscription to the media	310	241	441	342
TOTAL:	10245	15361	14577	21856

12. The share capital of the company is LVL 924 400 (EUR 1 315 303) and consists of 924 400 shares. The par value of each share is LVL 1.

13. Other loans

<i>Current:</i>	Date of payment	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
		LVL	LVL	EUR	EUR
Finance lease liabilities to SIA Unilīzings EUR		36633		52123	
TOTAL:		36633		52123	
<i>Non-current:</i>					
Finance lease liabilities to SIA Unilīzings EUR	15.07.2010.	152067		216372	
TOTAL:		152067		216372	

14. Loans from credit institutions

<i>Current:</i>	Maturity	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
		LVL	LVL	EUR	EUR
Loan from a/s Latvijas Unibanka	EUR	104595	102383	148825	145678
Loan from a/s Latvijas Unibanka	LVL 08.02. 2008.	798306		1135887	
Loan from a/s Latvijas Unibanka	LVL 02.04.2007.	196413	328000	279471	466702
TOTAL:		1099314	430383	1564183	612380
<i>Non-current:</i>					
Loan from a/s Latvijas Unibanka	EUR 23 March 2009	115319	307149	164084	466702
TOTAL:		115319	307149	164084	466702

15. Taxes payable

	31/03/2007	Calculated	Paid/ refunded	31/12/2006
Statutory social insurance contributions	(8261)	(22877)	20581	(5966)
Personal income tax	(4517)	(13433)	13389	(4473)
Corporate income tax	(32968)	(23964)	27701	(34705)
Value added tax	14954	(17401)	22447	9908
Real estate tax	(542)	(498)		(44)
Natural resources tax			8	(8)
Duties	13	(39)	39	13
TOTAL LVL:	(31321)	(78212)	84165	(35275)
TOTAL EUR:	(44565)	(111286)	119756	(50192)
Total assets LVL	14967			9921
Total assets EUR	21296			14116
Total liabilities LVL	(46288)			(45196)
Total liabilities EUR	(65861)			(64308)

17. Other liabilities

	LVL		EUR	
	31.03.2007.	31.03.2006.	31.03.2007.	31.03.2006.
Wages and salaries	16677	15609	23729	22210
TOTAL:	16677	15609	23729	22210

 Andris Krastiņš
 Chairman of the Board