



**Department of Forest Products**

**Financial analysis of the Russian forest  
product companies**

Stanislav Sokolov





**Department of Forest Products**

# **Financial analysis of the Russian forest product companies**

Stanislav Sokolov

---

*Master Thesis, 30 ECTS credits, D-level in Business Administration  
Stanislav Sokolov, MSc European Forestry*

*Supervisor SLU: Lars Lönnstedt*



## **Abstract**

The thesis applies financial analysis and assesses the financial performance of six Russian forest product companies, i.e. evaluate how well the companies perform. The goal is achieved through implementation of different financial analysing tools and techniques, mainly financial ratio analysis. Different financial measures are evaluated. Furthermore, comparisons are made between companies, their past and expected future development is analysed and compared with the economy in general. Ratio analysis showed as well that all studied companies had problems with the absolute liquidity. However, other types of financial liquidity were at acceptable levels. Profitability of studied companies was poor for majority of businesses. It was connected with low returns on assets and inadequate profit margins. Activity ratios that define the companies' market strategies had more or less good figures. According to ratio analysis of financial leverage, the studied companies were divided in two groups - financially independent businesses and others that rely on external funding.

**Keywords:** *Russian forest product companies, financial analysis, ratio analysis, Russian financial accounting statements, Russian accounting standards*

## Sammanfattning

Uppsatsen tillämpar finansiella analyser och värderar den finansiella prestationen hos sex ryska skogsproduktföretag, med andra ord hur väl företagen presterar. Målet nås genom implementering av olika finansiella analysverktyg och tekniker, huvudsakligen finansiell ratioanalys. Olika finansiella mätningar utvärderas. Vidare görs jämförelser mellan företag, deras historiska och förväntade framtida utveckling är analyserad och jämförd med ekonomin i allmänhet. Ratioanalyser visade också att alla de studerade företagen hade problem med den absoluta likviditeten. Hursomhelst, andra typer av finansiell likviditet låg på acceptabla nivåer. Lönsamheten hos de studerade företagen var svag för en majoritet av företagen. Det hörde samman med låg avkastning på tillgångar och låga vinstmarginaler. Aktivitetsratios som definierar företagens marknadsstrategier hade mer eller mindre bra siffror. Enligt ratioanalyser av finansiell hävstångsverkan kan de studerade företagen delas in i två grupper – finansiellt oberoende företag och andra som är beroende av externa medel.

# Table of Contents

<b>1. INTRODUCTION .....</b>	<b>10</b>
1.1. PURPOSE: FINANCIAL ANALYSIS FOR THE RUSSIAN FORESTRY .....	10
1.2. APPROACH .....	11
1.3. SELECTION CRITERIA FOR STUDIED COMPANIES .....	11
1.4. LITERATURE REVIEW .....	12
1.5. LIMITATIONS AND KEY ASSUMPTIONS .....	12
1.6. THESIS OUTLINE .....	13
<b>2. THEORETICAL FRAMEWORK .....</b>	<b>14</b>
2.1 THE ROLE OF FINANCIAL ANALYSIS IN INFORMATIONAL SUPPORT .....	14
2.1.1 <i>Two main types of financial analysis</i> .....	14
2.1.2 <i>The method and main objectives of financial analysis</i> .....	15
2.2 SOURCES OF INFORMATION FOR THE ANALYSIS .....	17
2.2.1 <i>Basics of financial statements</i> .....	17
2.2.2 <i>International approaches to financial statements</i> .....	19
2.2.3 <i>Relationship between financial analysis and auditing</i> .....	20
2.3 SPECIFICITY OF FINANCIAL ACCOUNTING IN RUSSIA .....	20
2.3.1 <i>Russian accounting standards</i> .....	21
2.3.2 <i>Transformation of Russian accounting statements for the analysis</i> .....	22
2.4 ASSESSMENT OF FINANCIAL PERFORMANCE .....	24
2.4.1 <i>Ratio analysis</i> .....	24
2.4.2 <i>Liquidity measurements</i> .....	25
2.4.3 <i>Balance sheet and liquidity</i> .....	26
2.4.4 <i>Profitability ratios</i> .....	28
2.4.5 <i>Evaluation of efficiency</i> .....	29
2.4.6 <i>Leverage ratios</i> .....	31
2.4.7 <i>Limitations on using financial ratios</i> .....	32
2.4.8 <i>Statistical evaluation of results of ratio analysis</i> .....	33
2.4.9 <i>Analysis of possibility of a bankruptcy</i> .....	34
2.4.9.1 <i>The Altman's model of insolvency prediction</i> .....	34
2.4.9.2 <i>The Fulmer's model</i> .....	35
<b>3. BACKGROUND FOR THE EMPIRICAL STUDY .....</b>	<b>36</b>
3.1. OVERVIEW OF THE RUSSIAN FOREST INDUSTRY .....	36
3.2. INFORMATION ABOUT STUDIED COMPANIES .....	39
3.2.1 <i>Arkhangelsk Paper and Pulp Mill</i> .....	39
3.2.2 <i>Mondi Business Paper Syktyvkar</i> .....	40
3.2.3 <i>Pitkäranta Cellulose Plant</i> .....	41
3.2.4 <i>Segezha Pulp and Paper Mill</i> .....	42
3.2.5 <i>Syktyvkar Wood Processing Mill</i> .....	43
3.2.6 <i>The Koigorodok Timber Company</i> .....	44
3.3. ACCESSIBILITY OF FINANCIAL REPORTS FOR THE ANALYSIS .....	44
<b>4. THE EMPIRICAL STUDY .....</b>	<b>47</b>
4.1. SEQUENCE OF OPERATIONS AND LOGIC OF THE CHAPTER FOUR .....	47
4.2. STRUCTURE AND CHANGES IN THE FINANCIAL REPORTS .....	50
4.2.1 <i>Structure of balance sheet of the APPM at the end of 2006</i> .....	52

4.2.2.	<i>Structure of balance sheet of the MBP SY at the end of 2006</i> .....	54
4.2.3.	<i>Structure of balance sheet of the PCP at the end of 2006</i> .....	57
4.2.4.	<i>Structure of balance sheet of the SPPM at the end of 2006</i> .....	59
4.2.5.	<i>Structure of balance sheet of the SWPM at the end of 2006</i> .....	62
4.2.6.	<i>Structure of balance sheet of the KTC at the end of 2006</i> .....	64
4.3.	ANALYSIS OF PROFIT CHANGES.....	66
4.3.1.	<i>Financial results of the APPM at the end of 2006</i> .....	67
4.3.2.	<i>Financial results of the MBP SY at the end of 2006</i> .....	68
4.3.3.	<i>Financial results of the PCP at the end of 2006</i> .....	69
4.3.4.	<i>Financial results of the SPPM at the end of 2006</i> .....	70
4.3.5.	<i>Financial results of the SWPM at the end of 2006</i> .....	71
4.3.6.	<i>Financial results of the KTC at the end of 2006</i> .....	72
4.4.	BALANCE SHEET AND LIQUIDITY .....	73
4.5.	RATIO ANALYSIS.....	74
4.5.1.	<i>Statistical comparison of the ratio analysis results</i> .....	77
4.5.2.	<i>Assessment of financial performance</i> .....	78
4.5.2.1	<i>Financial liquidity</i> .....	78
4.5.2.2	<i>Profitability</i> .....	80
4.5.2.3	<i>Activity</i> .....	83
4.5.2.4	<i>Leverage</i> .....	85
4.6	POSSIBILITY OF A BANKRUPTCY .....	87
4.6.1	<i>The Altman's model</i> .....	88
4.6.2	<i>The Fulmer's model</i> .....	89
4.7	COMPARISON WITH THE INDUSTRY AVERAGES .....	89
<b>5.</b>	<b>DISCUSSION AND CONCLUSIONS</b> .....	<b>93</b>
5.1	SUMMARY OF FINANCIAL ANALYSIS RESULTS.....	93
5.1.1	<i>Arkhangelsk Paper and Pulp Mill</i> .....	93
5.1.2	<i>Mondi Business Paper Syktyvkar</i> .....	93
5.1.3	<i>Pitkäranta Cellulose Plant</i> .....	94
5.1.4	<i>Segezha Pulp and Paper Mill</i> .....	94
5.1.5	<i>Syktyvkar Wood Processing Mill</i> .....	95
5.1.6	<i>Koigorodok Timber Company</i> .....	95
5.2	CONCLUSIONS .....	96
	<b>BIBLIOGRAPHY</b> .....	<b>98</b>
	<b>APPENDIXES</b> .....	<b>100</b>
	<b>APPENDIX 1. FINANCIAL STATEMENTS OF THE APPM (2004-2006)</b> .....	<b>101</b>
	<b>APPENDIX 2. FINANCIAL STATEMENTS OF THE MBP SY (2004-2006)</b> .....	<b>110</b>
	<b>APPENDIX 3. FINANCIAL STATEMENTS OF THE PCP (2004-2006)</b> .....	<b>120</b>
	<b>APPENDIX 4. FINANCIAL STATEMENTS OF THE SPPM (2004-2006)</b> .....	<b>130</b>
	<b>APPENDIX 5. FINANCIAL STATEMENTS OF THE SWPM (2004-2006)</b> .....	<b>140</b>
	<b>APPENDIX 6. FINANCIAL STATEMENTS OF THE KTC (2004-2006)</b> .....	<b>150</b>
	<b>APPENDIX 7. HISTORICAL CURRENCY EXCHANGE RATES</b> .....	<b>160</b>
	<b>APPENDIX 8. ORIGINAL RUSSIAN ACCOUNTING STATEMENTS</b> .....	<b>161</b>



## Table of Figures

Figure 1: Thesis outline .....	1
Figure 2: Classification of financial analysis. ....	14
Figure 3: Vertical and horizontal methods of financial analysis. ....	16
Figure 4: Generalized overview of a financial reporting system.....	18
Figure 5. Structure of the Russian forest industry estimated by capital involvement.....	37
Figure 6. Export earnings per 1 cubic meter of produced timber in 2007.....	38
Figure 7: Geographical position of the studied companies .....	45
Figure 8. Logical scheme of chapter four.....	47
Figure 9. Structure of data presentation in paragraphs 4.2 and 4.3 .....	48
Figure 10. Financial ratios used in the thesis.....	49
Figure 11: Changes of main balance sheet accounts of the APPM for 2004-2006.....	53
Figure 12: Changes of main balance sheet accounts of the MBP SY for 2004-2006 .....	56
Figure 13: Changes of main balance sheet accounts of the PCP for 2004-2006.....	58
Figure 14: Changes of main balance sheet accounts of the SPPM for 2004-2006.....	61
Figure 15: Changes of main balance sheet accounts of the SWPM for 2004-2006 .....	63
Figure 16: Changes of main balance sheet accounts of the KTC for 2004-2006.....	66
Figure 17: Changes of main income statement accounts of the APPM for 2004-2006 .....	67
Figure 18: Changes of main income statement accounts of the MBP SY for 2004-2006.....	68
Figure 19: Changes of main income statement accounts of the PCP for 2004-2006 .....	69
Figure 20: Changes of main income statement accounts of the SPPM for 2004-2006.....	70
Figure 21: Changes of main income statement accounts of the SWPM for 2004-2006 .....	71
Figure 22: Changes of main income statement accounts of the KTC for 2004-2006 .....	72
Figure 23: Histogram of the most important ratio ratings of the companies.....	77
Figure 24: Liquidity ratios of the studied Russian forest product companies .....	79
Figure 25. GPM, OPM and NPM for the analyzed period .....	80
Figure 26. ROA, ROFA and ROCA for the analyzed period.....	81
Figure 27. ROABIT, ROS, ROE and ROCE for the analyzed period.....	82
Figure 28. Activity turnovers (ACP, DR, DI and DP) of the studied companies .....	84
Figure 29. Activity turnovers (IT, TAT, FAT, APT and ART) of the studied companies.....	85
Figure 30. Financial leverage, Debt ratio and Debt to Equity ratio.....	86
Figure 31. Long-term debt to total and fixed assets and Equity multiplier ratios .....	87

## List of tables

Table 1: Financial accounting regulation in the Russian Federation.....	21
Table 2: Production of main forest products in Russia in 2004-2007 (1 <sup>st</sup> quarter). ....	36
Table 3: Export statistics of Russian forest products in 2004-2006.....	38
Table 4: The APPM in brief. ....	40
Table 5: The MBP SY in brief. ....	41
Table 6: The PCP in brief. ....	42
Table 7: The SPPM in brief.....	43
Table 8: The SWPM in brief. ....	43

Table 9: Overview of the studied companies .....	46
Table 10: Balance sheets structures of analyzed companies (thousand RUR).....	50
Table 11: Changes of main balance sheet accounts in 2005-2006 (thousand RUR).....	51
Table 12: Structure of balance sheet of the APPM at the end of 2006 (thousand RUR) .....	52
Table 13: Structure of balance sheet of the MBP SY at the end of 2006 (thousand RUR).....	55
Table 14: Structure of balance sheet of the PCP at the end of 2006 (thousand RUR) .....	57
Table 15: Structure of balance sheet of the SPPM at the end of 2006 (thousand RUR).....	60
Table 16: Structure of balance sheet of the SWPM at the end of 2006 (thousand RUR) .....	62
Table 17: Structure of balance sheet of the KTC at the end of 2006 (thousand RUR) .....	65
Table 18: Income statement analysis of the APPM (thousand RUR) .....	67
Table 19: Income statement analysis of the MBP SY (thousand RUR).....	68
Table 20: Income statement analysis of the PCP (thousand RUR) .....	69
Table 21: Income statement analysis of the SPPM (thousand RUR) .....	70
Table 22: Income statement analysis of the SWPM (thousand RUR) .....	71
Table 23: Income statement analysis of the KTC (thousand RUR) .....	72
Table 24: Financial liquidity based on balance sheet data (in thousand RUR).....	73
Table 25: Ratio Analysis of the APPM, the MBP SY and the PCP in 2004-2006 .....	75
Table 26: Ratio Analysis of the SPPM, the SWPM and the KTC in 2004-2006 .....	76
Table 27: Statistical rating of companies based on results of ratio analysis .....	77
Table 28: The Altman's Z-Value for studied forest product companies.....	88
Table 29: The Fulmer's model of a bankruptcy prediction .....	89
Table 30: Average financial ratios of the Russian forest industry (1996-2004) .....	90
Table 31: Average key ratios of the studied Russian forest product companies.....	91

## Abbreviations

<b>ACP</b>	Average Collection Period
<b>APPM</b>	Arkhangelsk Paper and Pulp Mill
<b>APT/ART</b>	Accounts Payable Turnover / Accounts Receivable Turnover
<b>CIS</b>	Commonwealth of the Independent States
<b>EBIT</b>	Earnings Before Interests and Taxes
<b>EPR</b>	Enterprise Resource Planning System
<b>EPS</b>	Earnings Per Share
<b>FAT</b>	Fixed Assets Turnover
<b>FCS</b>	Federal Customs Service (of Russia)
<b>FL</b>	Federal Law (or Financial Leverage)
<b>FSC</b>	Forest Stewardship Council
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GDP</b>	Gross Domestic Product
<b>GPM</b>	Gross Profit Margin
<b>GR</b>	Gearing Ratio
<b>ha.</b>	Hectares
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>IFRS</b>	International Financial Reporting Standards

<b>IT</b>	Inventory Turnover
<b>JSC</b>	Joint Stock Company
<b>km.</b>	Kilometre(s)
<b>KTC</b>	Koigorodok Timber Company
<b>MBP SY</b>	Mondi Business Paper Syktyvkar
<b>NPM</b>	Net Profit Margin
<b>NWCT</b>	Net Working Capital Turnover
<b>OPM</b>	Operating Profit Margin
<b>PCP</b>	Pitkäranta Cellulose Plant
<b>pct</b>	percentage point
<b>RAS</b>	Russian Accounting Standards
<b>ROA</b>	Return on Assets
<b>ROABIT</b>	Return on Assets before Interests and Taxes
<b>ROCA</b>	Return on Current Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return on Equity
<b>ROFA</b>	Return on Fixed Assets
<b>ROIC</b>	Return on Invested Capital
<b>ROS</b>	Return on Sales
<b>RUR</b>	Russian Roubles
<b>SEC</b>	Securities and Exchange Commission (of the United States)
<b>SEK</b>	Swedish Krona
<b>SPPM</b>	Segezha Pulp and Paper Mill
<b>SWPM</b>	Syktyvkar Wood Processing Mill
<b>US</b>	United States of America
<b>USD or \$</b>	United States Dollar
<b>US GAAP</b>	Generally Accepted Accounting Principles in the United States

# 1. Introduction

*Business activities of a company always attract certain attention from various market participants such as associates, investors, competitors or authorities, who are expressly or by implication interested in its financial results. The third parties are able to estimate financial performance by analyzing accounting statements available for public use. Financial analysis serves as a primary tool for this purpose. The main idea of financial analysis is to obtain enough of key values (the most informative ones), that represent objective and exact financial situation within a company: its profits and losses, structural changes in assets and liabilities, level of competitiveness, relations with debtors and creditors. This analysis can be used both for estimation of current financial condition and for its prediction in the nearest or more remote future.*

## 1.1. Purpose: financial analysis for the Russian forestry

Russian forestry is characterized by substantial international relations with Europe. From year to year, sufficient interests in investments from other regions increase as well. Internationalization of business leads to a stronger competition on the global timber market. In order to gain a competitive advantage on this market, the use of different informational sources is usually required. The most suitable sources for gathering business information are financial accounting statements available for public use. However, in Russia there are some difficulties with availability of these reports. While the Russians have several ways of obtaining financial data of a forest product company, non-residents do not have such possibility and it is complemented with such difficulties as a language barrier, compatibility of national accounting principles with international standards etc. Nevertheless, accounting statements do not provide too much insight by themselves and they should be always processed according to methods of financial analysis.

The main goal of the thesis is to analyze accounting statements of Russian forest product companies. The goal is divided into two main directions: theoretical and practical. **Theoretical part** of the main goal consists of the following objectives:

- To define whether financial analysis can be made for Russian businesses. (Will it be required to use special methodology for the analysis?);
- To understand basics of the Russian accounting system. To compare Russian financial statements with international ones. (Will it be possible to compare results of financial analysis made for Russian companies with results of European analogues?);
- To study an important question of availability of Russian financial statements for the analysis. (How easy (or hard) to get a Russian accounting statement?);
- To evaluate credibility of Russian financial statements. (In other words can we trust to public reports while using them for analysis?);
- To choose a representative group of Russian forest product companies. (How many Russian forest product companies should be studied in the thesis? What branches of forestry should they represent? i.e. to define selection criteria)

The **practical part** includes the following objectives:

- To study changes and structure of articles in Russian financial statements;

- To estimate financial liquidity of companies by studying only balance sheets;
- To use more complex methods of financial analysis such as ratio analysis for defining relationships between articles in financial statements;
- To define “weak spots” in companies’ business performance;
- To apply specific methods of a bankruptcy prediction for Russian forest product companies;
- To compare results of ratio analysis with industry averages and between analyzed businesses;
- To make an evaluation of Russian forest product industry according to results of financial analysis.

## **1.2. Approach**

Main sources of information for the thesis are the accounting reports available for public: balance sheets and income statements. Nowadays in Russian financial accounting practices, big or middle-sized forest product companies use both national (for the State Taxation Service) and international (IFRS or US GAAP) principles of financial accounting. Application of international principles is not compulsory and is only used for convenience of foreign contractors. However, there are certain differences in approaches to financial accounting in Russia, which will be discussed in the thesis. In addition, the method of financial analysis and therefore its results may vary in different countries. Hence, in order to make the results comparable, it is essential to interpret sources of information first.

Methodology of financial analysis includes variety of specific instruments like ratios, indicators and coefficients suitable for their own purposes. The analysis also implies researching of changes over time. It is true that financial analysis means thorough explanation of each received result. All financial ratios in the thesis were calculated using Microsoft® Excel® environment based on formulas presented in theory chapter. All results were gathered in summary tables. There are many advantages of this approach such as convenience, stability and popularity of the software and relative accessibility (or easiness of use). Additionally, special analysis templates have been created especially for the thesis. With the help of these templates, the calculation routine has been reduced literally in six times. Nevertheless, regardless of the amount of calculations, all results have been grouped in the most compact resulting tables as possible.

Russian forest industry consists of about 20 thousand businesses (forestry and related spheres) with predominance of small companies. To choose appropriate businesses for the analysis, the scope of the thesis has been narrowed to the European part of Russia (North-West). The scope of the thesis also includes forest product companies with the following activities: paper and pulp, production of market cellulose, wood processing (planks and plywood production, sawmilling, producing of furniture etc.) and tree felling.

## **1.3. Selection criteria for studied companies**

According to the open Internet database of the Russian forest industry - “www.wood.ru”, the North-West administrative region has 834 forest product companies listed in the database, including enterprises producing paper and pulp, cellulose plants, wood processing and timber harvesting mills. The main approach for selecting companies was to choose 2-3 firms producing different forest products and belonging to different parts of the North-West administrative region of Russia. Additionally, the selected companies should not be

competitors to each other neither by a product, nor by geographical position on the market. However, this approach has appeared too optimistic. At the very first stage of writing this project, fifteen Russian forest product companies have been selected to form up representative group for the industry. Fifteen e-mails were sent to head offices of these companies. Unfortunately, no one replied. The communication issue had been threatening the whole project in its early stage, however a solution was found. There are only six Russian forest product companies participating in the thesis. They are the Arkhangelsk Paper and Pulp Mill (APPM), Mondi Business Paper Syktyvkar (MBP SY), Pitkäranta Cellulose Plant (PCP), Segezha Pulp and Paper Mill (SPPM), Syktyvkar Wood Processing Mill (SWPM) and the Koigorodok Timber Company (KTC).

In initial group of fifteen companies, only three businesses had official web-portals with financial data available for any interested party. These companies were the APPM, the PCP and the SPPM. Auditors signed all accounting statements that were taken from the corporate pages. Either the rest of the companies in initial group had no online pages, or their financial statements were inaccessible for public use. Private contacts have been used to get financial data from remaining companies (yet the sampling criteria were taken into consideration). Two more enterprises - the MBP SY and the SWPM were found on registrars' web pages – firms that collect joint-stock companies' data. The KTC's financial reports were obtained from a friend of author who is currently one of the company's employees.

#### **1.4. Literature review**

There are many theoretical sources covering financial analysis available both in English and in Russian. The first part of bibliographical sources of the thesis consists of hard-copy materials and the most deserved attention books are reviewed below. The “Financial analysis: tools and techniques. A guide for managers” by Erich A. Helfert (10<sup>th</sup> ed. - McGraw Hill, 2001, 510p.) describes a system approach to financial analysis, helps to interpret financial statements and shows every technique and measure. Another book – “Financial management and analysis” by F.J. Fabozzi and P.P. Peterson (2<sup>nd</sup> ed. - Wiley Finance, 2003, 992p.) deals with principles and tools of financial analysis around the globe. Its authors also contribute to understanding of financial statement analysis, which includes analysis of financial ratios, evaluation of earnings and cash flow analysis. A very good approach to accounting and statement analysis could be found in “Financial statement analysis: a practitioner's guide” by M. Fridson and F. Alvarez (3<sup>rd</sup> ed. - Wiley Finance, 2002, 396p.). On the real life examples, the authors illustrate the financial statement analysis. A great self-study book “Financial analysis with Microsoft Excel” by T. Mayes and T. Shark (Harcourt, 1996, 296p.) integrates financial performance with spreadsheet analysis using Excel. It helps to create a template for making financial analysis faster and convenient. Another part of the used bibliography includes the Internet sources such as web pages and online articles. Foundations of accounting practices of Russia are based on the state financial policy, which is governed by the Ministry of Finance of Russia. For this reason, the law and subordinate regulatory acts determine them. Because of their rapid change, the Internet is the only provider of actual legislative data for the thesis.

#### **1.5. Limitations and key assumptions**

For the purpose of the thesis, only big and average-sized forest product companies were assumed for the analysis. The main reason for this was accessibility of accounting statements. The bigger is company, the easier to get financial statements. However, there is only one small Russian forest product company included in the project - its financial statements were

obtained through personal contacts (the KTC). In total, there are six Russian forest product companies studied in the thesis. Their types of activities shown above were selected for possible comparison with businesses in Sweden, Finland and (or) other countries. All financial statements in the thesis include the same time interval - last three accounting years (2004, 2005 and 2006).

## 1.6. Thesis outline

The thesis consists of seven chapters including bibliography: introduction, theoretical framework, background for the empirical study, the empirical study, discussion of the results and conclusion. All chapters are shown in Fig.1. Each chapter of the thesis includes a preface defining its contents.

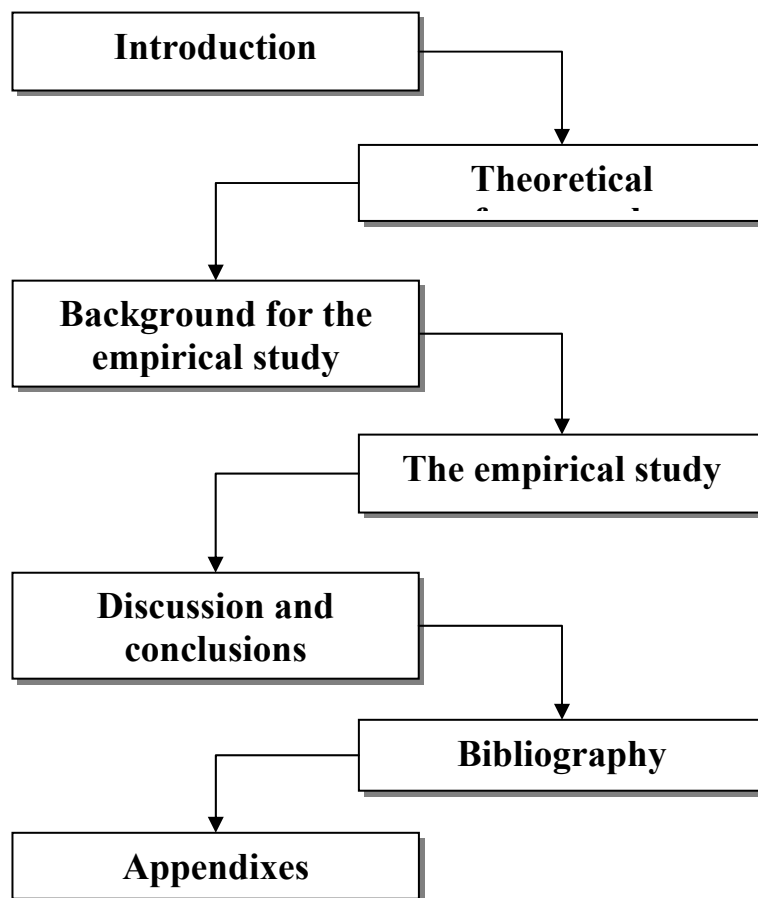


Figure 1. Thesis outline.

## 2. Theoretical framework

*This chapter includes explanation of informational role of financial analysis in business environment. There are two different approaches to financial analysis and, therefore, each of them has different goals. Full description of the method of financial analysis, main sources of information and classification including its Russian and international differences are explained in this part of the thesis.*

### 2.1 The role of financial analysis in informational support

Financial analysis helps various parties, interested in a company's activities, to obtain financial information required to them. The main purpose of financial analysis is to estimate current financial conditions and define actions necessary to conduct work on improvement or preserving of these conditions. Financial analysis also summarizes a firm's business activities in the past, at present and in the near future. Its main function is to identify financial performance of a company, reveal weaknesses, potential sources of problem occurrence in its further plans and to find out strengths on which the firm can rely. Financial performance of a company, being one of the major business characteristics, defines competitiveness, potential of the business, economic interests of the company's management and reliability of present or future contractors. Therefore, the secondary goal of analysis is to reveal financial condition of the company to external users.

#### 2.1.1 Two main types of financial analysis

Financial analysis can be both internal and external. This basic classification of types of financial analysis is shown in Fig.2.

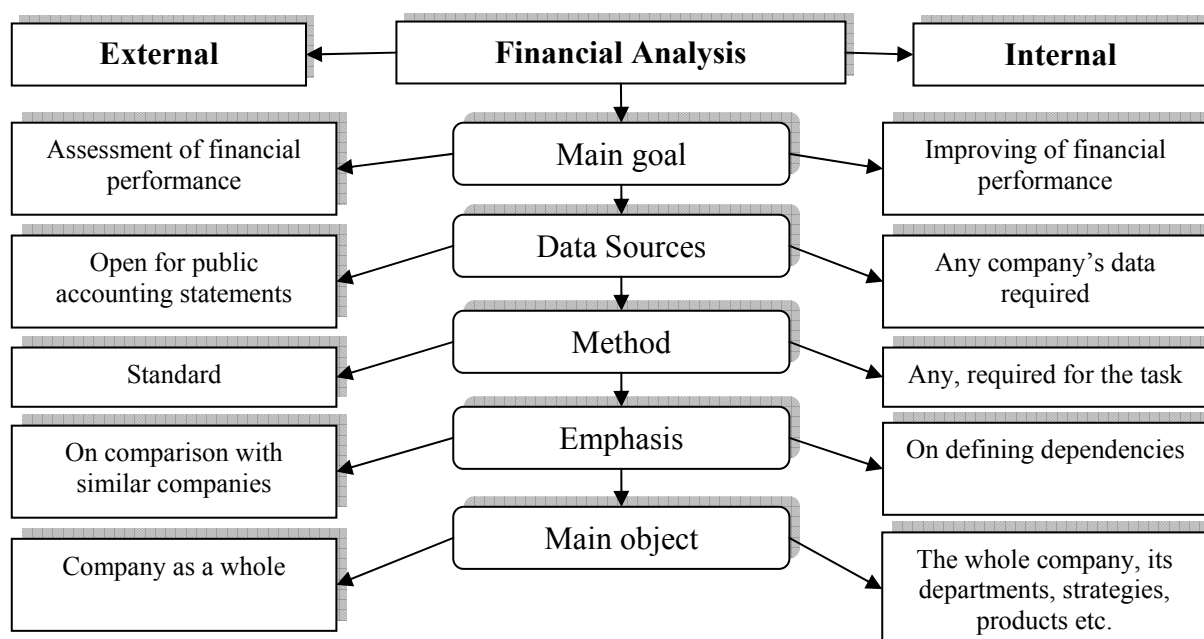


Figure 2. Classification of financial analysis. (Maksimov, et al., 2006)



**Internal financial analysis** (also known as managerial financial analysis) is necessary for meeting the own requirements of a company. It is aimed on determination of liquidity or results estimation of a last fiscal period. Usual “output” of internal analysis is a set of administrative decisions - combination of various measures intended for optimization of certain “issue” within the business. The internal analysis is typically performed inside a company by its financial department and constantly revised because of changes in macro- and microeconomic environment. Due to the nature of data sources using for the internal analysis (internal accounting books and reports), its results are always precise.

An external analyst does not have access to internal financial data and, hence, has to carry out so-called **external financial analysis**, when initiative does not belong to a company’s management, but to a third party. The main goal and objectives of external analysis may differ from its managerial analogue. The defining a creditworthiness and investment possibilities by an investor, may serve purposes of an external financial analysis. In similar way, financial liquidity or solvency can be of interest for a bank. To make a better decision, potential business partners wish to know maximum available information about a firm and amount of risk involved in respect of investments profitability and possible gains and losses. External financial analysis is based on published accounting statements and aimed on prediction of a possible bankruptcy, assessment of business performance and financial sustainability of a company.

Irrespective of type of the analysis, its methods are very similar. They are determination and interpretation of various financial ratios, studying of changes over time and structural changes of articles. Correct application of financial analysis allows answering many questions concerning “financial health” of a business. (Zemitan, 2005) The thesis is focused on conducting external analysis and further mentioning of “financial analysis” in the manuscript will mean only “external financial analysis”.

### **2.1.2    *The method and main objectives of financial analysis***

Financial analysis has its specific set of tools along with particular way of their application that defines methodology of the analysis. Main objectives of financial analysis specify spheres of finances where its methods suit best. (IKF "ALT", 2006) The main objectives of financial analysis are:

- Making “snapshot” of financial efficiency of a company at a moment of research;
- Revealing tendencies and patterns in a company’s development for a period;
- Defining weaknesses that negatively influence financial performance;
- Revealing reserves which a company can use for improvement of its financial situation;
- Make conclusions and suggestions for improving difficult financial situation.

To successfully fulfil these objectives and therefore to reach main goals of the thesis, a specific set of methods should be used. The basic methods of financial analysis are: horizontal, vertical, trend-based analysis, ratio analysis, factorial and express analysis. Most of these methods utilize financial statements available for public use as a data source.

The vertical analysis calculates specific “weights” or proportions of individual articles in total value of an accounting report. As an example, for a balance sheet vertical analysis will include structure of assets and liabilities at a certain moment of time. Horizontal analysis deals with

changes of articles. The main principal scheme of horizontal and vertical analysis is shown in Fig.3, where “0” means previous period, and “1” – the current.

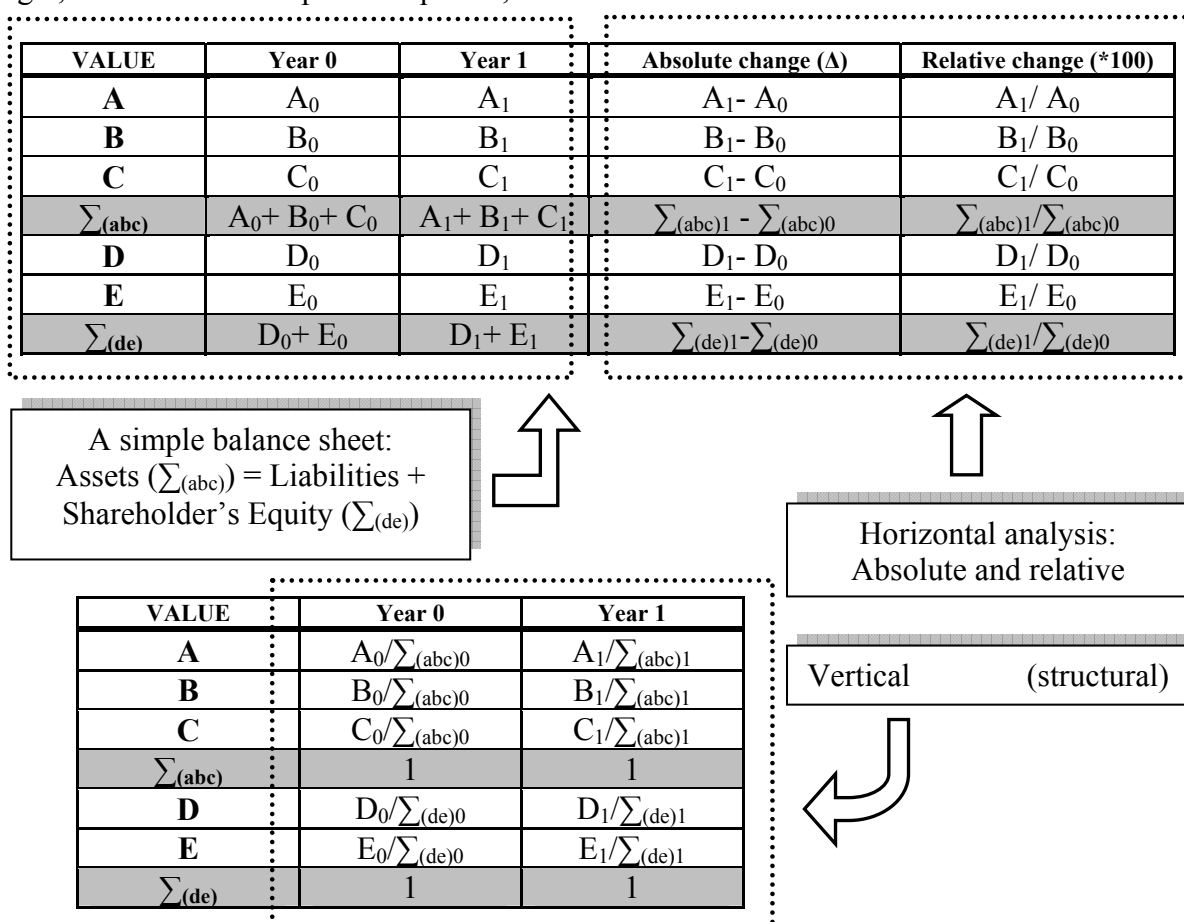


Figure 3. Vertical and horizontal methods of financial analysis. (Stanislav Sokolov)

Trend-based analysis compares articles in accounting reports for several periods (years, or other adjacent accounting periods) and reveals tendencies dominating in the changes of values. Factor analysis reveals causes of changes in absolute and relative values through decomposition of them. The main objective of express analysis is so-called “quick” assessment of financial situation of a company.

Ratio analysis studies levels and changes of relative measurements of financial performance. This method is the most commonly used in the world practices of financial analysis because of its relative simplicity and availability of data sources. It is also the main method for the thesis. When using the ratio analysis one can tell how profitable a business is: to show if it has enough capital to meet its obligations and even suggest whether its shareholders satisfied by an increasing value of the company or not. Ratio analysis can also help to confirm whether a company is doing better this year than it was last year; and it can tell how a firm is performing comparing with similar firms in industry. This method is based on a correct interpretation of calculated values. However, it has some limitations. The problem is to choose a proper ratio that suits best to a goal of analysis. The proper application of a ratio depends on correct economical and financial meaning of that ratio. To be useful, both the meaning and limitations of a chosen ratio have to be understood. Meaningful ratio analysis must conform to the following elements: 1) the viewpoint of the analysis taken; 2) the objectives of the analysis; 3) the potential standards of comparison. These elements will be described later.

## 2.2 Sources of information for the analysis

Financial analysis (hence, its results) depends largely on the quality of data it uses. The presence of uniform system of data collection about company's property status, financial results and business activities is required as obligatory criteria for quality of the analysis. Such system does exist and financial analysts use widely public accounting statements. One of primary goals of financial accounting includes providing of complete and trustworthy information about economic activity, necessary both for internal (executives, shareholders, partners and proprietors of organization), and the external users (analysts, investors, creditors and other users of financial statements). The accounting has been developed to accumulate, maintain, and provide financial information regarding internal business transactions. (Jagels, et al., 2003) Thus, accounting statements can be named a permanent asset in communication between company and all involved parties because they provide credible channel of the information about financial performance. That is why quality requirements for financial statements are high. (Zemitan, 2005)

### 2.2.1 Basics of financial statements

Financial reporting system of a country utilizes its specially determined accounting statements and rules of their application. Regulation and use of financial reports is coordinated by national or (and) international accounting standards. There are four main financial statements:

- A balance sheet;
- An income statement;
- Cash flow statement;
- Statement of shareholder's equity.

Balance sheet shows what a company owns and what it owes at the certain moment of time. It provides details about company's assets, liabilities and shareholders' equity. **Assets** are things that a company owns that have value. Assets include physical property and things that non-material but nevertheless exist and have value, such as trademarks and patents. In addition, cash itself is an asset. In a balance sheet, assets are generally listed based on how quickly they can be converted (current and noncurrent assets) into cash. **Liabilities** are amounts that a company owes to others. This also includes obligations to provide goods or services to customers in the future. Liabilities are generally listed based on their due dates (long-term and short-term). **Shareholders' equity** is the value that would be left if a company sold all of its assets and paid off all of its liabilities. In other words, it is a net worth of a company. It belongs to the shareholders, or to the owners of the company. Balance sheet is based on accounting equation:  $ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY$  (SEC, 2007)

Income statement is a report that shows how much revenue a company earned over specific period. An income statement also shows the costs and expenses associated with earning that revenue. The end line of the statement usually shows the company's net earnings or losses. Income statements also report earnings per share for joint-stock companies.

Cash flow statement reports a company's inflows and outflows of cash. This statement shows whether the company generated cash. Generally, cash flow statements are divided into three main parts. Each part reviews the cash flow from one of three types of activities: 1) operating activities; 2) investing activities; and 3) financing activities.

The fourth financial statement – statement of shareholders' equity (it may also have other names according to national standards) – shows changes in the interests of the company's shareholders over time. (SEC, 2007) The main idea of financial statements is to provide information about **financial position** (balance sheet), **performance** (income statement), and **changes in financial position** (cash flow statement) of a company. (Van Greuning, 2006) In addition, Erich Helfert in his "Financial Analysis: Tools and Techniques" brings up the general picture of a company's financial reporting system. There are three main "branches" of a company's activities: Investments, Main operations and Financing. As Fig.4 shows, all three financial reports reflect the interconnection within a business organization, helping to visualize their coverage and relationship as an integrated whole. The idea of the scheme is that all three financial statements cover three informational dimensions of management by overlapping and supporting each other.

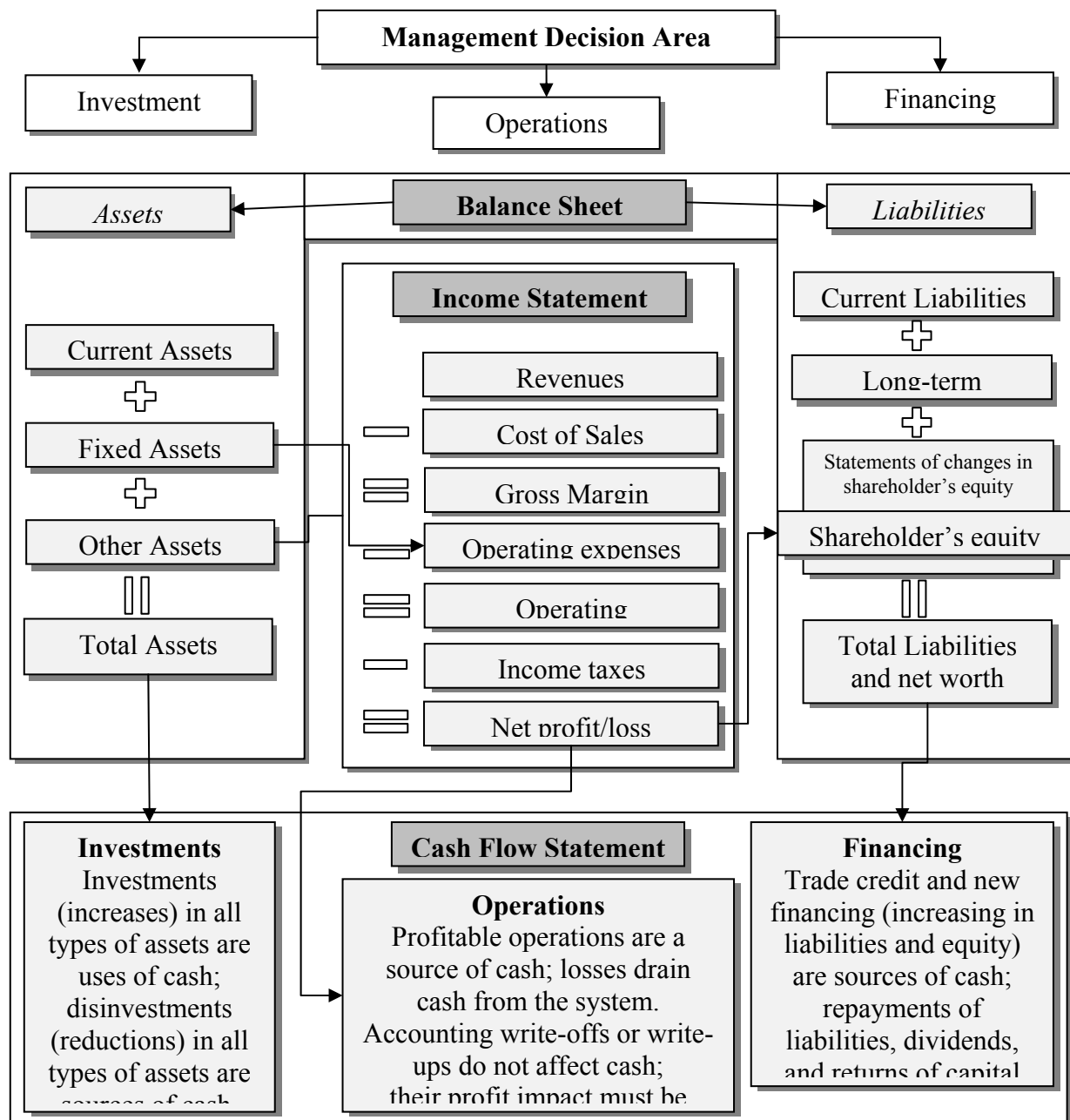


Figure 4. Generalized overview of a financial reporting system. (Helfert, 2001)

Financial reporting system has certain attributes that make the information provided in financial statements useful to users. They are called qualitative characteristics:

- Relevance;
- Reliability;
- Comparability;
- Accessibility.

**Relevant information** influences economic decisions created by users, helping them to evaluate past, present, and future events or to confirm or correct their past evaluations. (Van Greuning, 2006) **Reliable information** is free from material errors. **Comparable information** is presented in a consistent manner over time and in a consistent manner between entities to enable users to make significant comparisons. **Accessibility** attribute stands for ability of information to be understandable by users who have a basic knowledge of business, economic activities, and accounting. These characteristics are fundamental and despite real variations among the nations, persist in all accounting standards and approaches around the globe.

### **2.2.2 International approaches to financial statements**

Accounting and reporting practices, regardless of national differences, during their historical development, have been highly consistent. The reason is that all these practices were intended to accomplish the same goals. With the impact of industrial revolution and the growth of various forms of businesses in the XIX century, many countries tried to bring order to the variety of practices by “either introducing legislation that set out accounting rules for businesses or providing a general framework for their conduct”. (Hussey, et al., 2005) An essential part of this legislation was the disclosure of financial information by organizations to various groups. However, the term “accounting standard” appeared only in 1970s. Nowadays, the diversity of accounting systems has become less then significant, because the systems of the more dominant economic leaders became the preferred sets of practices for companies oriented in a business activity in those nations. (Epstein, et al., 2002)

In the age of globalization, a demand for uniformity of accounting standards has emerged considerably. Comparability of financial information is the aim of implementing universal accounting rules. The move to unification has started due to the increasing influence of the International Accounting Standards Board (IASB). Currently, major developed economies, for example, the European Union, China, Brazil and Australia have adopted the International Financial Reporting Standards (IFRS) for their accounting systems (IAS PLUS, 2007). Other countries have also declared their intentions to adapt their national standards (GAAP) with international requirements, and some still have not decided on their aims. Several nations have partially adopted IFRS for companies listed on domestic stock market and banks. In the United States, there are still barriers on the way of harmonization of accounting standards with IFRS. The United States Securities and Exchange Commission (SEC) currently requires all overseas companies listed in the US to prepare their results either under the US national standards (US GAAP) or according to their local requirements with a footnote integrating their local standards to US GAAP. The process of unification of accounting standards is still undergoing. The work for convergence of national accounting standards is conducted through the following four directions:

- Procedural matters – to specify how accounting records are have to be kept and how transactions are to be recognized in the records;

- Recognition – to specify what will be accepted as an economic transaction for financial accounting and reporting purposes;
- Measurements – to specify how revenues, expenses, gains, losses, assets, and liabilities should be measured in the financial statements;
- Disclosure – to specify the content and presentation of information in financial statements. (Hussey, et al., 2005)

Although, consolidation of national accounting standards is still important differences among these standards are often significant. This happens mainly due to opinions difference of those who develop standards, in regard of recognition and measurement norms. Other problems are connected sometimes with technical difficulties and political issues. The negative consequence consists in possibility to examine a set of financial statements of a company in one country but be unable to compare it with a similar business in another country. “This is because the financial statements had been drawn up according to different accounting and reporting requirements”. (Hussey, et al., 2005) However, big players on international markets – multinational corporations, have already overcome comparability problems of financial information. It has become natural that all major players on the global market keep their financial records both in national and international formats.

### **2.2.3 *Relationship between financial analysis and auditing***

Financial auditing represents an entrepreneurial activity of auditors in independent and unbiased verification of accounting statements. As known from the history of economics, a company’s owner has just recently ceased to be identified as its administration. Separation of interests of management and investors caused development of the audit. Consequently, independent auditors eliminate problem of discrepancy of interests of those who creates financial statements and those who uses them, leading eventually to accessibility of financial information. The audit also diminishes possibility of an incorrect decision-making, based on unreliable information that can entail negative economic consequences for a company.

Likewise, auditor activities remove problem associated with necessity for an end-user to have a special knowledge for estimation of reliability of financial statements. The degree of reliability cannot be easily evaluated by the majority of end-users, because of their limited access to accounting books and other internal information. That is why an auditor’s conclusion can ensure the required level of confidence in a financial statement. It is true as well for financial analysis. For an external analyst, use of financial reports signed by an auditor means getting trustworthy results.

## **2.3 Specificity of financial accounting in Russia**

From the beginning of 1990s, Russia has been reformed from the command economy into a new system - the market economy. This transition was and continues to be difficult. Almost all spheres of life were affected by it – the economy, political affairs, the culture and social sphere, education and so on. Finances and accounting was not an exception. The government decided to transform Soviet accounting rules into new standards. However, the reforms in financial accounting are still in progress. International financial reporting standards are also used together with Russian Accounting Standards (RAS) and the US GAAP. The IFRS and US GAAP are the choice of those businesses that work on international markets (and only banks in Russia are obliged to use IFRS). The IFRS and the RAS have many similarities because Russian standards evolved from International accounting principles.

### 2.3.1 Russian accounting standards

The Russian legal system is based on a civil law concept like in many other European continental countries. In civil law countries, the main users of financial information are not the shareholders, like in the common law countries (the US, the UK, Australia), but government bodies and creditors. Unlike common law countries, where professional representatives develop standards for a non-state sector, in civil law countries state authorities make all accounting regulations. (McGee, et al., 2006) The regulative system of accounting in Russia consists of four levels (from federal laws to local statutory acts), ranging by status of an act in their subordination. The status is defined by administrative level of a legislative act and by its compulsoriness. The whole system of regulation of the Russian accounting is shown below in Table 1.

Table 1. Financial accounting regulation in the Russian Federation (McGee, et al., 2006)

Level	Name of the Document	Status	
		Type of the document/ Responsible body	Compulsory to follow
1	Federal Law №129 "On Accounting"	FL / Parliament	Yes
	Federal Law №208 "On JSC"	FL / Parliament	Yes
	Federal Law №86 "On the central bank"	FL / Parliament	Yes
	Federal Programme of accounting reformation in Russia	Programme / Government of Russia	Yes
2	Russian Accounting Standards	Ministry of Finance	Yes
	Accounting rules for banks	Central Bank of Russia	Yes
	Methodological Instruction on accounting	Ministry of Finance and Central bank of Russia	Yes
3	Card of accounts and Instruction on its implementation	Ministry of Finance	Recommended
	Methodological Instruction on accounting (industry depended)	Other ministries	Recommended
4	Local normative acts adopted on a company's level	Company	No

As shown in Table 1, Russian accounting system is based on the administrative regulation and standards that created by various government bodies. Therefore, first two levels (laws and other statutory acts created by the government) are compulsory for all companies and failure to meet these standards may end with negative consequences for a business. Other two levels of the accounting regulation are not compulsory to follow and advisory in nature (instructions, recommendations, application examples etc.). Russian financial accounting standards are mainly focused on needs of the state tax service (as main user of financial statements in Russia). On the contrary, international standards protect interests of a proprietor. It is major and fundamental difference between them.

The main regulating act of the Russian accounting system is the Law №129. This document is still requiring an adaptation to new economic situation in the country. According to article written by E. Smirnov "Accounting and reporting" (Smirnov, 2007), many Russian

professional accountants agree, that many problems of the Russian accounting legislation are caused by the following weaknesses of the main law:

- Russian accounting methodology emerged from realities of planned economy and its “state-oriented” approach. In a market economy, certain attention from the government is still required for creation of such regulation system of the financial accounting, that will guarantee protection of rights of all involved parties in obtaining required financial information;
- Official regulation does not imply participation of professional community in improving of accounting standards in Russia. At the same time, international experience shows that self-regulation by professionals might be the better way in reforming;
- Russian accounting legislation is adhered to civil procedure law and does not allow realizing one of the basic principles of the IFRS – “priority of economic content over a legal form” i.e. primacy of transaction over its legal form (a way of depiction in financial reports and books);
- Judging by their qualitative characteristics, the overall quality of the International accounting standards is higher than quality of the Russian standards. However, regulation of financial accounting in Russia does not allow using of the IFRS principles in the national standards. Many statements of the Law №129 contradict the International accounting standards;
- Accounting methodology of Russia contains excessively detailed requirements to accounting process, in particular, through description of obligatory forms and primary registration documents. For Russian companies it limits possibilities to choose an effective way of handling of accounting information and complicates automation of the bookkeeping;
- According to the Law №129, only joint-stock companies have to publish their financial statements. Majority of companies in Russia prefer not to disclosure their reports and accounting policies for public. The Law №129 does not mention anything about public access to statements created according to the IFRS.

Nowadays, there is growing number of companies in Russia that accept International financial reporting standards for reporting their business activities. However, such transition has voluntary nature (except for already mentioned banks) and it is difficult to tell for the present, when the information shown in Russian accounting reports will be comparable with statements from abroad. For those Russian companies that wish to use international standards there are two alternatives: conducting of parallel accounting (good, but expensive) and transformation (cheap, but not very effective) of Russian financial statements. However, for an external analyst it is still impossible to tell whether a Russian accounting report has been created using the RAS or the IFRS.

### **2.3.2     *Transformation of Russian accounting statements for the analysis***

Russian businesses, including forest product companies, usually experience certain difficulties on international markets because they use national accounting system for disclosure of their financial information. The system of accounting regulation cannot make national companies operating at the global market more open for their foreign customers and partners. Only initiative coming from a company’s management to use the IFRS standards simultaneously with Russian reporting may help. If a company wishes to attract investments from abroad or



receive bank financing, it is crucial for it to use financial language that is officially recognized worldwide – international accounting statements.

In most cases, Russian companies overcome these issues by implementation of dual accounting or by using outsourcing and consulting services for transformation of their statements. For small and middle-sized companies these methods are expensive and, hence, inconvenient. It is especially important for the Russian forestry, which performs traditionally worse than, for example, oil and gas industry. Having financial accounting on a dual level is only affordable for an industry leader because it requires substantial capital investments. Such companies commonly use an enterprise resource planning systems (ERP systems) that allow using two (or more) accounting schemes simultaneously and without difficulties for employees.

For small and middle-sized firms, who are interested in using of the IFRS, there is perhaps the only one solution. It is the manual transformation of financial statements according to international standards. The need of doing such procedure can arise from an expansion of activities at international markets. It is true for Russian forest product companies because the industry is mostly export-oriented. The transformation of financial statements is less expensive and allows adjusting to the IFRS in relatively short time. Process of transformation affects internal accounting data and managerial accounting information. Unfortunately, it cannot be performed by a third party and almost certainly, the company will keep its transformed financial statements for internal and foreign partners use only, simply because there are no requirements in the Russian legislation to make them available for public.

Financial statements created according to the RAS have a few significant differences in comparison with the IFRS reports. For example, Russian balance sheet overstates “property, plant and equipment” article because of differences in calculation of depreciation in Russia. The depreciation is based on rates from the state tax office and these rates are usually low (lower depreciation=>higher value of an equipment=>higher taxes). On the contrary, the IFRS balance sheets represent real or market value. Another example is from financial leasing. According to the RAS, it is possible to reflect this activity in a balance sheet in a way that it will be placed neither in assets, nor in liabilities (with violation of disclosure principle). Second, the form of Russian income statement is strictly defined and because of its orientation on taxation, accountants have no possibility to accept neither the income, nor the costs before they have a paper document (proof of transaction). For that reason, operations committed but not accepted in the current fiscal period automatically move to the next one. The IFRS do not require paper approval of a transaction - all operations committed in one period belong to the same period in the accounting. There are many other contradictions between RAS and IFRS principles that occur because of the different accounting methodology.

Because of the accounting differences, a conclusions made in the thesis will not be fully comparable with European or American businesses. Any achieved results should be only considered regarding the studied companies in specific period within one industry and national economics. For this reason, all financial statements acquired for the analysis were kept original (in Russian Roubles - RUR) because the transformation to the IFRS is virtually impossible for external users. On the other hand, international standards do not even provide support for conversion of statements in their original currency into other currencies for convenience of end users, or for other similar purposes. For those readers who wish to evaluate original RUR articles in the Swedish Kroner (SEK), historical exchange rates were added (Appendix 7). For the need of the thesis and convenience of its readers, all Russian

financial statements collected for the analysis have been translated into English. Line codes of translated statements can be used for easy collation with statements of any Russian company.

## **2.4 Assessment of financial performance**

Financial statements, by themselves, do not provide a lot of information about how well a company performs year to year or in comparison to other businesses in its industry. One of the reasons why is difficult to make comparisons is that companies rarely have exactly the same revenue. Another reason is that companies have varying financing structures. Ratios and other performance measures and techniques have been developed to make financial information comparable from company to company. These tools form three broad categories: estimation of operating performance, evaluation of financial performance and defining level of financial risk. Operating performance deals with efficiency of management. In other words, it is important to know if a company use its assets in an efficient and profitable manner. Financial performance deals with issues related to a company's financial structure and ability to meet its financial obligations. Analysis of financial risk is important to banks, suppliers, and investors. The general objective of financial analysis is to evaluate the effectiveness in each of these areas.

### **2.4.1 Ratio analysis**

The information contained in the main financial statements has major significance to various interested parties who regularly need to have relative measures of the company's business efficiency. Financial analysis conducted for the need of third parties is external by its nature and often called "analysis of financial statements". The analysis of financial statements is based on the use of ratios also known as relative values. Ratio analysis involves methods of calculating and interpreting financial ratios to analyze and monitor the firm's performance. The only data sources to ratio analysis are the firm's financial statements. (Gitman, 2004)

There are as many different financial ratios as there are possible combinations of items appearing on the balance sheet, income statement and cash flow statement, and their application is defined from an analyst point of view. Financial management practitioners use various approaches depending on the goal of analysis or business issue. Despite of the number of ratios, they all cohere through their classification.

Frank Fabozzi and Pamela Peterson in their "Financial Management and Analysis" propose following classification of financial ratios according to the way they are constructed. They define four types of ratios:

- *Coverage ratios.* A coverage ratio is a measure of a firm's ability to "cover" certain financial obligations. The denominator is an obligation and the numerator is the amount of the funds available to satisfy that obligation;
- *Return ratios.* A return ratio indicates a net benefit gained from particular investment of resources or any other similar activity. The numerator is the net result of an operation and the denominator is the resources spent for that operation;
- *Turnover ratios.* A turnover ratio is a measure of how much a firm gets out of its assets. It compares the gross benefit from an activity with the resources employed in it;
- *Component percentage.* A component percentage is the ratio of one amount in a financial statement, such as sales, to the total of amounts in that financial statement. (Fabozzi, et al., 2003)

Nevertheless, ratio analysis is not just the calculation of a given ratio. Ratios, alone, are not sufficient to understand a company's past performance or to forecast future perspectives in business. Most important is the interpretation of the ratio value. However it is not an easy work to do and there is no single correct value for a ratio. Correct conclusion, that the value of a particular ratio is too high, too low, or just right depends on perspective of the analyst and on company's strategy. A financial ratio is meaningful only when it is compared with some standard, a norm, such as an industry trend, ratio trend, or a planned management objective. This is called benchmarking and it can be used as a measure. According to David Vance, benchmarking "involves analyzing the financial statements of the best companies in an industry and using their financial ratios as a basis for evaluation of a company's performance". (Vance, 2003)

As a result, to make correct conclusions on ratio analysis, two types of ratio comparisons should be made: cross-sectional approach and trend-analysing method. Cross-sectional analysis involves comparison of different firms' financial ratios over the same period in time. It usually concerns two or more companies in similar lines of business. One of the most popular forms of cross-sectional analysis compares a company's ratios to industry averages published by statistical agencies. In trend analysis, ratios are compared over a periods, typically years. Year-to-year comparisons can highlight trends and point up possible need for action. Trend analysis works best with three to five years of ratios. Certainly, the most informative approach to ratio analysis combines both cross-sectional and trend analyses. A combined view makes it possible to assess the trend in the behaviour of the ratio in relation to the trend for the industry.

Financial statement analysis of operating performance and financial condition goes along with the four directions where financial ratios can be calculated:

- Liquidity
- Profitability
- Efficiency or turnover
- Financial leverage

There are several ratios revealing each of the four aspects of operating performance and financial condition and more details about it will follow in the next section.

### **2.4.2    *Liquidity measurements***

The liquidity of a firm is measured by its ability to satisfy its short-term obligations as they come due. (Gitman, 2004) Liquidity also stands for ability of a company to convert its assets into cash quickly and with lower costs as possible. Such liquid assets are necessary to cover any "financial emergencies" and play as a buffer in company's operations.

*Current Ratio.* The current assets consist of cash and assets that can easily be turned into cash and the current liabilities consist of payments that a company expects to make in the near future. Thus, the ratio of the current assets to the current liabilities measures the margin of liquidity. It is known as the current ratio:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \quad (1)$$

The meaning of the current ratio is the following: it is usually better when it is higher – between 1 and 2 (sometimes 1-3). Rapid decreases in the current ratio sometimes may indicate problems.

*Quick Ratio.* Differences in structure of assets may require calculating the quick ratio. Some assets are more liquid than others are. For example, inventories have relatively low liquidity since selling of them may require lowering prices. On the other side, cash, short-term securities, and bills that customers have not yet paid, are more liquid:

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Securities} + (\text{Accounts and notes receivable})}{\text{Current liabilities}} \quad (2)$$

Usually, it is recommended to have the Quick Ratio higher than 1, but for Russian companies an interval with 0.7-0.8 is acceptable.

*Cash Ratio (Absolute liquidity ratio).* The most liquid assets are the company's of cash and financial instruments. These assets have an absolute liquidity and allow redeeming all obligations in no time. The recommended value of this ratio is 0.2-0.5.

$$\text{Cash Ratio} = \frac{\text{Cash} + (\text{Short - term securities})}{\text{Current liabilities}} \quad (3)$$

Another way to measure a company's ability to cover short-term obligations is the *Net Working Capital-To-Sales Ratio*, which compares net working capital (current assets minus current liabilities) with sales:

$$\text{Net Working Capital to Sales} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Sales}} \quad (4)$$

*Operating Cash Flow Ratio* is focused on the ability of a company's operations to generate the resources needed to repay its current liabilities:

$$\text{Operating Cash Flow Ratio} = \frac{\text{Cash Flow from operations}}{\text{Current liabilities}} \quad (5)$$

These measures of liquidity are just indicators of a problem financial situation and aimed to attract attention of an involved party. They are no substitutes for a detailed financial plan ensuring that a company can pay its bills. Liquidity ratios also have a negative characteristic. Because of short-term assets and liabilities are easily changed, measures of liquidity can rapidly become outdated.

### 2.4.3 Balance sheet and liquidity

Liquidity of a company can be estimated not only by calculation of liquidity ratios, but also through learning of so-called "balance sheet liquidity". This method is widely used in Russian financial analysis practices, because balance sheet serves as a primary information source. The analysis consists of comparison of assets grouped by the level of their liquidity and posted in ascending order, with liabilities, grouped by terms of their due dates in the same order.

Depending on liquidity level, i.e. speed of transformation into the money; assets are divided into the four following groups:

**A1** - Most easily convertible (liquid) assets. All money resources of a company and short-term financial investments (securities) are included in this group. These assets have absolute liquidity. The A1 resources are most mobile and can be “injected” in financial cycle in any moment of time whereas other types of assets can be only added with a certain time gap. Thus, the more A1 assets a company has the higher degree of probability that all urgent financial obligations will be covered as soon as possible if critical event occurred. Insignificant amount of money and securities does not always mean that company is insolvent. Sometimes cash assets can be sent to accounts within a few days and some types of assets can be easily turned into cash. The A1 group is calculated as follows: (line 250 + line 260) from Russian balance sheet (as in Appendix 8);

**A2** - Liquid assets. It is accounts receivable expecting within 12 months after accounting date. (line 240);

**A3** - Slow realizable assets. This part of the current assets includes stocks, the value-added tax on acquired values and accounts receivable expecting later than 12 months after date of transaction and other operating assets. (line 210 + line 220 + line 230 + line 270);

**A4** – Slow realizable assets. These are the fixed assets (line 190).

Liabilities of the balance sheet are also grouped according to their due dates:

**L1** – The most accrued liabilities. It is the accounts payable. (line 620);

**L2** – Short-term liabilities. These are the short-term loan proceeds, other short-term liabilities, and dividends payable. (line 610 + line 660);

**L3** - Long-term liabilities. This group consists of the long-term credits, loan proceeds, and deferred incomes and reserves of forthcoming costs and payments. (line 590 + line 630 + line 640 + line 650);

**L4** – Shareholder’s equity. It includes the capital and reserves minus losses (line 490).

For definition of the balance sheet liquidity, it is necessary to compare values of the resulted groups of assets and liabilities in pairs. A balance sheet is considered as “absolutely liquid” if all four following events are fulfilled at the same time

$$A1 \geq L1; A2 \geq L2; A3 \geq L3; A4 \leq L4$$

If first three inequalities in the system are accomplished, then the fourth inequality fulfills automatically. In case when one or some inequalities are not fulfilled, liquidity of the balance may differ to some extent from absolute liquidity. Typically, lack of liquidity in one group of balance sheet accounts is compensated from another group of assets or liabilities that has excesses of it.

#### 2.4.4 Profitability ratios

Profitability ratios help to measure how well a company is managing its expenses. These measurements allow evaluating the company's profits with respect to a given level of sales, a certain level of assets, or the owner's investment. It is related to the effectiveness with which management has employed both the total assets and the net assets as recorded on the balance sheet. These ratios are usually created by relating net profit, defined in a variety of ways, to the resources utilized in generating that profit.

*Gross Profit Margin.* This ratio measures the percentage of sales money remaining after the firm has paid for its goods. The higher is the gross profit margin, is better. The gross profit margin ratio is calculated as follows:

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} = \frac{\text{Gross Profit}}{\text{Sales}} \quad (6)$$

In general, a company's gross profit margin should be stable. It should not fluctuate much from one period to another, unless the industry it is in has been undergoing drastic changes, which will affect the costs of goods sold or pricing policies.

*Operating Profit Margin.* It measures the percentage of each monetary unit from sales remaining after all costs and expenses other than interest, taxes, and preferred stock dividends are deducted (Gitman, 2004). If a company's margin is increasing, it is earning more per 1 monetary unit of sales. A high operating profit margin is preferred:

$$\text{Operating Profit Margin} = \frac{\text{Operating profits}}{\text{Sales}} \quad (7)$$

*Net Profit Margin.* The net profit margin measures the percentage of each monetary unit from sales remaining after all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted. The net profit margin is calculated as follows:

$$\text{Net Profit Margin} = \frac{\text{Earnings available for common stockholders}}{\text{Sales}} \quad (8)$$

*Earnings per Share (EPS).* It represents the number of monetary units earned during the period on behalf of each outstanding share of common stock (Gitman, 2004) and calculates as follows:

$$\text{EPS} = \frac{\text{Earnings available for common stockholders}}{\text{Number of shares of common stock outstanding}} \quad (9)$$

*Return on Assets (ROA).* A company is efficient if it can generate an adequate return while using the minimum amount of assets. Efficiently working company does not require too much cash for everyday operations and can shift its excesses to investments in new spheres. Consequently, the ROA is considered a critical ratio for determining a company's overall level

of operating efficiency and it shows how much profit was earned on the total capital used to make that profit.

$$\text{Return on Assets} = \frac{\text{Net profits}}{\text{Total assets}} \quad (10)$$

*Return on Assets before Interests and Taxes (ROABIT)*. This ratio is similar with the one from above, but has a difference. It gives result that is more meaningful after eliminating both interest and taxes from the net profits and use earnings before interest and taxes (EBIT). It is useful in elimination any significant unusual or nonrecurring income and expense items. In addition, it utilizes an “average assets” value in the denominator:

$$\text{Return on Assets before Interests and Taxes} = \frac{\text{EBIT}}{\text{Average assets}} \quad (11)$$

*Return on Equity (ROE)*. It is another very important measure of a company's profitability that reveals how much profit it generates with the money shareholders have invested.

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Shareholders equity}} \quad (12)$$

*Return on Capital Employed (ROCE)*. This ratio indicates the efficiency and profitability of a company's capital investments.

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Total assets} - \text{Current liabilities}} \quad (13)$$

#### 2.4.5 Evaluation of efficiency

This is another set of ratios to estimate how efficiently a company uses its working capital. Efficiency (or activity) ratios measure the speed with which various accounts are converted into sales or cash – inflows or outflows. During the analysis of financial statements, it is important to look beyond measures of liquidity and to evaluate the efficiency of specific current accounts. Several ratios are available from the real analysis practices for measuring the performance of the most important elements of working capital: inventory, accounts receivable, and accounts payable.

*Inventory Turnover* generally measures the efficiency of inventory. The resulting turnover is meaningful only when it is compared with similar companies in the same industry or to the past data. It is calculated as follows:

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} \quad (14)$$

*Average Collection Period.* This ratio represents the approximate amount of time that it takes a company to receive payments owed, in terms of receivables, from its customers and clients:

$$\text{Average Collection Period} = \frac{\text{Average Accounts receivable}}{\text{Average sales per day}} \quad (15)$$

The average collection period is meaningful only in relation to the company's credit terms.

*Total Assets Turnover.* It measures a company's efficiency at using its assets in generating sales or revenue - the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover:

$$\text{Total Assets Turnover} = \frac{\text{Sales}}{\text{Total assets}} \quad (16)$$

*Accounts Payable Turnover.* The ratio that shows to potential investors how many times per period a company pays its average payable amount.

$$\text{Accounts Payable Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Accounts payable}} \quad (17)$$

*Accounts Receivable Turnover.* This is ratio represents the number of times the amount of accounts receivable is collected throughout the year.

$$\text{Accounts Receivable Turnover} = \frac{\text{Sales}}{\text{Average Accounts receivable}} \quad (18)$$

*Net Working Capital Turnover.* This ratio measures a company's net sales from the working capital generated (19).

$$\text{Net Working Capital Turnover} = \frac{\text{Sales}}{\text{Net Working Capital}} \quad (19)$$

In “Business Analysis and Valuation”, one can find a supplementary way to evaluate the efficiency of a company's working capital management There are three following ratios: Days in Receivables, Days in Inventory, and Days in Payables. (Palepu, et al., 2006)

$$\text{Days in Receivables} = \frac{\text{Average Accounts receivable}}{\text{Average Sales}} \times 365 \quad (20)$$

$$\text{Days in Inventory} = \frac{\text{Average Inventory}}{\text{Average Costs of Sales}} \times 365 \quad (21)$$

$$\text{Days in Payables} = \frac{\text{Average Accounts payable}}{\text{Average Costs of Sales}} \times 365 \quad (22)$$



The Days in Receivables ratio provides an estimate of the number of days, on average, what it takes for customers to pay their account (if for a company, how many days are needed to collect their revenues). The Days in Payables shows a company's average payable period. It is the indicator of how long a company is taking to pay its trade creditors. The Days in Inventory gives an idea of how long it takes a company to turn their inventory into sales while production process.

#### 2.4.6 *Leverage ratios*

“When a company borrows money, it agrees to make a series of fixed payments in the future. Because their shareholders get only what is left after the debt holders have been paid, the debt is said to create financial leverage. In extreme cases, if crisis times come, a company may be unable to pay its debts”. (Brealey, et al., 2003) Financial leverage enables a company to have an asset base larger than its equity. A company can finance its assets with equity or with debt. Usual practice is expanding the equity through borrowings and the creation of other liabilities like accounts payable, accrued liabilities, and deferred taxes. Financial leverage increases the company’s ROE as long as the cost of the liabilities is less than the return from investing these funds. “While a company’s shareholders can potentially benefit from financial leverage, it can also increase their risk”. (Palepu, et al., 2006)

Contrasting with equity, liabilities have predefined payment terms, and the company may face risk of financial distress if it fails to meet these obligations. There are some ratios to evaluate the degree of risk coming from a financial leverage. (Palepu, et al., 2006) There are two types of financial leverage ratios:

- Component percentages
- Coverage ratios.

Component percentages compare a company’s debt with either its total capital (debt plus equity) or its equity capital. Coverage ratios reflect an ability to satisfy fixed financial obligations, such as interest, principal repayment, or lease payments. (Fabozzi, et al., 2003)

*Total Debt to Assets Ratio.* This component ratio is also-called “Debt Ratio” and measures the proportion of total assets financed by company’s creditors. The ratio is calculated as follows:

$$\text{Debt Ratio} = \frac{\text{Average Liabilities}}{\text{Average Total assets}} \quad (23)$$

The higher Total Debt to Assets Ratio, the greater degree of indebtedness and the more financial leverage a company has.

*Debt to Equity Ratio.* The another component ratio that is able to reveal how a company finances its operations with debt relative to the book value of its shareholders equity:

$$\text{Debt to Equity Ratio} = \frac{\text{Average Liabilities}}{\text{Average Book value of shareholder's equity}} \quad (24)$$

*Assets to Equity (Equity Multiplier).* It is also the component measure of financial leverage. It shows how a company uses debt to finance its assets:

$$\text{Equity Multiplier} = \frac{\text{Average Total assets}}{\text{Average shareholder's equity}} \quad (25)$$

*Gearing Ratio.* It is a measure of financial leverage, representing the degree to which a company's activities are funded by owner's funds in opposition to creditor's funds:

$$\text{Gearing Ratio} = \frac{(\text{Long - term liabilities})}{\text{Equity} + (\text{Long - term liabilities})} \times 100 \quad (26)$$

*Times Interest-Covered Ratio.* The first coverage ratio, which provides the information about how well a company can cover or meet the interest payments associated with its debt. The ratio compares the funds available to pay interest (EBIT) with the interest expense:

$$\text{Times Interest - Covered Ratio} = \frac{\text{EBIT}}{\text{Interest expense}} \quad (27)$$

The greater the interest coverage ratio, the better is ability to pay interest expense.

*Long-term Debt to Total Assets.* The ratio measures a share of company's total assets, which is financed by long-term sources. The higher this value is better. The formula is the following:

$$\text{Long - Term Debt to Total Assets} = \frac{\text{Average Long - term Liabilities}}{\text{Average Total Assets}} \quad (28)$$

*Long-term Debt to Fixed Assets.* This ratio shows which part of the fixed asset is created by long-term financing.

$$\text{Long - term Debt to Fixed Assets} = \frac{\text{Average Long - term Liabilities}}{\text{Average Fixed Assets}} \quad (29)$$

*Financial Leverage.* This measure is opposite to the Equity Multiplier Ratio and shows dependency of a company from external sources of financing.

$$\text{Financial Leverage} = \frac{1}{\text{Equity Multiplier}} \quad (30)$$

The lower this ratio, the higher risk of insolvency a company has.

#### 2.4.7 Limitations on using financial ratios

Financial ratios have certain limitations in their use and are not meant to be applied as definitive answers. They are usually used to provide additional details in the determination of the results of financial and managerial decisions. They can provide clues to the company's performance or financial situation. However, on their own, they cannot explain whether performance is good or bad. As for the external financial analysis, ratios also play a role of

basic indicators, showing just an overview of studying business entity. Ratios have to be interpreted carefully. Lawrence J. Gitman in his “Principles of Managerial Finance” points out some cautions about using ratios in financial analysis. He defines six of them:

- *Ratios with large deviations from the norm only indicate symptoms of a problem.* It is essential always to carry out additional analysis based on internal data to isolate the causes of the problem. Ratio analysis just directs attention to potential weak spots. It does not provide conclusive evidence and only shows the existence of a problem;
- *A single ratio does not provide enough information sufficient to judge the overall performance of a firm.* Only a group of ratios can practically play key role in it;
- *The ratio comparison should be made using ratios calculated with financial statements dated at the same point in time.* Otherwise, the effects of seasonality may produce incorrect conclusions. (For example, it is especially important while comparing agricultural companies where seasonality is crucial);
- *The use of audited financial statements for ratio analysis is preferable.* Using an audited financial statement guarantees a certain level of trust both for analyst and for the end-user. If the statements have not been audited, the data contained in them may not reflect true financial situation;
- *The financial data being compared should have been developed in the same way.* The use of differing accounting practices is especially relative to inventory and depreciation and can distort the results of ratio analysis. This limitation is very important for the thesis. It narrows the possibility for comparison of results of Russian forest product companies with European analogues since the analysis is performed on the different data basis. It is true, that the differences of accounting policies may distort intercompany comparisons;
- *Results can be distorted by inflation,* which can cause the book values of inventory and depreciable assets to differ greatly from their true (replacement) values. Additionally, inventory costs and depreciation write-offs can differ from their true values, thereby distorting profits. Without adjustment, inflation tends to cause older firms (older assets) to appear more efficient and profitable than newer firms (newer assets). (Gitman, 2004)

Ratio analysis is a useful tool, but a person who deals with it has to be always aware of these limitations and make adjustments as necessary and whenever possible. First, the ratio analysis is not just a mechanical process, as it seems to be. It involves an accurate results interpretation. For instance, a correct conclusion about financial ratio value is impossible without analysis of economical situation both in the industry and in the country. Knowing of environment where studied companies operate helps to make better conclusions for an analyst. Analysis of financial ratios can provide useful insights about company's operations, but preferably, it should be used together with other methods such as potential bankruptcy prediction, liquidity of a balance sheet, evaluation of profit changes and its composition and studying of structure of assets and liabilities.

#### **2.4.8 Statistical evaluation of results of ratio analysis**

The ratio analysis of six companies will produce large number of resulting values. To range the studied companies one after another, some special statistical methods should be applied. The idea is to “weigh” individual results of every single ratio for each studied forest product company against average result of this ratio for all companies. As a result, each studied company will be rated according by its average weight, which is in turn based on every single

ratio weight among other companies' ratios. More good valued ratios a company will have the higher it will be rated.

The formula is:

$$R_{ij} = \frac{P_{ij} - \mu_i}{\sigma_j}$$

- 1) Where  $R_{ij}$  means average weighted rating of ratio  $j$  of the company  $i$
- 2)  $P_{ij}$  is the average weighted value (rating) for ratio  $i$ , company  $j$  and calculated as follows:

$$P_{ij} = \sum_{k=1}^{K_j} W_{jk} P_{ijk}$$

Where:  $P_{ijk}$  – Average weighted ratio  $j$  for company  $i$  during period  $k$

$W_{jk}$  – Weight coefficient for a period  $k$  for the ratio  $j$  (100% -2006, 80% -2005, 60% -2004)

$K_j$  – Number of periods calculated for the ratio  $j$

- 3)  $\mu_j$  is the arithmetical mean value of ratio  $j$  for the group of companies.

$$\mu_i = \frac{\sum_{i=1}^N P_{ij}}{N}$$

Where:  $N$  is the number of studied forest product companies.

- 4)  $\sigma_j$  is the standard deviation of the ratio  $j$  in the group.

$$\sigma_j = \sqrt{\frac{\sum_{i=1}^N (P_{ij} - \mu_i)^2}{N}} = \sqrt{\frac{N \sum_{i=1}^N P_{ij}^2 - (\sum_{i=1}^N P_{ij})^2}{N}}$$

#### 2.4.9 Analysis of possibility of a bankruptcy

Bankruptcy is defined as a risk that company will be unable to meet its debt obligations. This legal risk affects not only the company and its shareholders (owners), but also customers, service providers, their employees and their respective supply chains including subcontractors and indirect customers. Studying possibility of a bankruptcy is the one of the most common task in financial analysis practices. There are at least twenty known methods of a bankruptcy prediction. In the thesis only two of them will be used: 1) The Altman's model and 2) The Fulmer's model

##### 2.4.9.1 The Altman's model of insolvency prediction

The Altman's Z-value is based on a multiplicative discriminant analysis allowing at a very first approach to distinguish companies to normally operating and potential bankrupts. The resultant Z-value is calculated based on five indicators and each of them has statistically approved specific weight. The Z-value makes possible to predict possibility of a bankruptcy during next two years. (Altman, 1968)

The Altman's model has the following form:

$$Z = 1.2*A + 1.4*B + 3.3*C + 0.6*D + 0.999*E$$

Where: A = Working Capital/Total Assets

B = Retained Earnings/Total Assets

C = Earnings before Interest and Taxes/Total Assets

D = Market Value of Equity/Book Value of Total Debt

E = Sales/Total Assets

The probability of a bankruptcy is evaluated on the following assumptions:

- if (the Z-Value) < 1,8, than probability of a bankruptcy is very high;
- if 1,8 < (the Z-Value) < 2,7, than the probability is moderate;
- if 2,7 < (the Z-Value) < 3, than the probability is low;
- if the Z-Value > 3, than the probability is negligibly low.

#### 2.4.9.2 The Fulmer's model

The Fulmer's model of a bankruptcy prediction takes into account more indicators than any other methods and, hence, it is considered as more reliable. Besides that, the model also factors into a company's size. The Fulmer's model is reported a 98% accuracy rate one year before failure and an 81% accuracy rate more than one year before bankruptcy. (Fulmer, 1984)

The model has the following form:

$$H = 5,528*(V1) + 0,212*(V2) + 0,073*(V3) + 1,270*(V4) - 0,120*(V5) + 2,335*(V6) + 0,575*(V7) + 1,083*(V8) + 0,894*(V9) - 6,075$$

Where:

V1 = Retained Earnings/Total Assets

V3 = EBIT/Equity

V5 = Debt/Total Assets

V7 = Log (Fixed Assets)

V9 = Log (EBIT/Interest)

V2 = Sales/Total Assets

V4 = Cash Flow/Total Debt

V6 = Current Liabilities/Total Assets

V8 = Working Capital/Total Debt

**If the H < 0, then company is insolvent**

### 3. Background for the empirical study

*In this part of the thesis, an overview of the Russian forest industry will be presented. The second half of this chapter includes information about each studied Russian forest product company and accessibility of their financial statements.*

#### 3.1. Overview of the Russian forest industry

All forests, except of those under control of the Russian Ministry of Defence, urban forests, and non-forest lands, form up so-called “forest fund of the Russian Federation”. Total area of the forest fund equals to 1.1 billion ha. or to 69 % of the country’s territory. The forest fund is owned by the state as an element of federal ownership. Almost 78 % of the Russian forests are situated in Asian part while the rest of it lays in European part of the country. The total productive forest area of Russia is 0.8 billion ha. where standing trees are amounted as 81.5 billion m<sup>3</sup>, including mature and over aged forests equal to 43.9 billion m<sup>3</sup> (where coniferous species – 34.5 billion m<sup>3</sup>). The species composition consists primarily of coniferous (79 %), hardwood (2 %) and softwood (19 %) trees. Nowadays, only 30 % of the total area of forest fund is evaluated as economically viable and accessible timber. The largest part of it is situated in the North-West, Central, Volgo-Vjatskij region, and the Ural economic region, Komi Republic, Karelia, Southern Siberia, Far East, the South of Vologda and the North Caucasus. (Nazarov, et al., 2005)

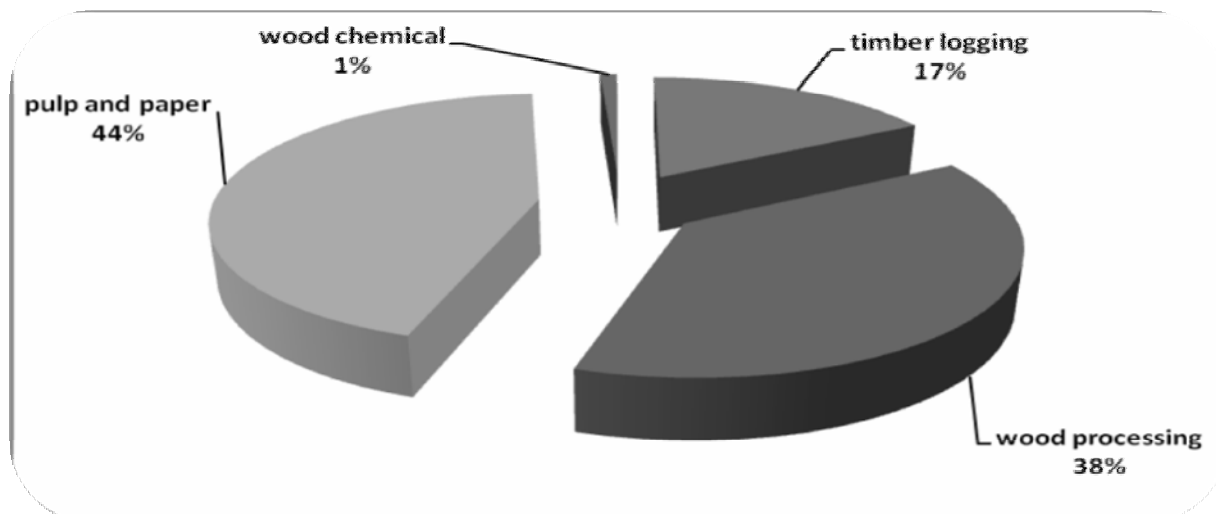
On its territory, Russia concentrates significant amount of all forest resources of the planet, including more than a half of world's reserves of the most valuable coniferous species. Some experts proved that country is able to harvest and process over 600 million m<sup>3</sup> of timber per year. Unfortunately, this great resource potential is used inefficiently. From the total amount of harvested timber in the country, no more than 20 % is being converted or processed into a final product. The main output of Russian forestry is round wood (Table 2), which is major export commodity. At the same time, absence of a necessary forest infrastructure in the industry does not promote increase of timber production. As a result, the level of production in the forest industry does not exceed 170-200 million m<sup>3</sup> of timber per annum. (Russian timber industry review, 2002) Although, according to official statistics, there was a decrease of round wood production for the last three years that shown in Table 2 (from 178 million m<sup>3</sup> in 2004 to 93.5 million m<sup>3</sup> in 2006).

*Table 2. Production of main forest products in Russia in 2004-2007 (1st quarter). (The Ministry of Industry and Energy of Russia, 2007)*

Product type	2004	2005	% to 2004	2006	% to 2005	Jan-April 2007	% to Jan – April 2006
Round wood (million m <sup>3</sup> )	178	101,1	56,8	93,5	92,5	37,5	103,0
Processed timber (million m <sup>3</sup> )	21	22,01	104,8	21,3	96,7	7,4	112,0
Plywood (thousand m <sup>3</sup> )	2246	2556	113,8	2600	101,7	903	101,6
Fibreboard (million m <sup>2</sup> )	342,2	375	109,6	373	99,4	135	112,3
Particle board (thousand m <sup>3</sup> )	3639	3930	108,0	4600	116,9	1657	115,7
Cellulose (thousand m <sup>3</sup> )	2411	2430	100,8	2380	97,9	794	103,6

tonnes)								
<b>Paper</b> (thousand tonnes)	3903	4001	102,5	4005	100,1	1337	99,4	
<b>Cardboard</b> (thousand tonnes)	2926	3125	106,8	3400	110,3	1139	103,9	

According to Table 2, other important products of the industry (apart from the round wood) for the last three years were plywood, paper, cardboard, cellulose, fibre- and particleboards. Currently, the structure of industry in money terms has the following proportion: timber logging – 17 % in total turnover, wood processing - 38 %, pulp and paper - 44 %, wood



chemical - less than 1 percent as shown in Fig.5.

Figure 5. Structure of the Russian forest industry estimated by capital involvement (Nazarov, et al., 2005).

Due to ongoing economic reforms, forestry of Russia has to become one of the leading sectors of the economy. The industry supplies with its production (construction materials, paper, packaging etc.) just about all branches of the national economy: mechanical engineering, mining, building, agriculture and trade. It consists of more than 20 thousand companies. (Nazarov, et al., 2005)

The main problem of the Russian forest sector is poor competitiveness of its products on international markets. When it comes to a business agreement, value of Russian forest products is usually 30-40 % lower than value of foreign analogues. This happens because of higher production costs, lack of forest certification and lower quality of products (because of obsolete technology, high level of capital depreciation, which is now for instance exceeding 70 %). Annually, total amount of employees in the sector decreases by 10 %. This is connected with an outflow of labour resources from the forest industry to other spheres of the national economy where salary is higher. The total amount of sales in the industry reaches no more than \$4.5 billion USD per year that makes it negligibly small in total value of the Gross Domestic Product (GDP) of Russia. Unfortunately, Russian forestry generates only 2.5 % of the national GDP. (Russian timber industry review, 2002) The amount of unprofitable businesses in the industry stays high.

Russian forest industry is the one of the most export-oriented branches of the national economy. Estimated by volumes of export, it is ranked fourth in the foreign trade after exporting of natural gas, crude oil, black and nonferrous metals. The export structure of main

forests products, based on information from the Federal Customs Service (FCS), is shown in Table 3. According to information from the Ministry of Industry and Energy of Russia, during last 15 years, the country's participation in the world trade of forest products fell from 18 to 2 percent.

Table 3. Export statistics of Russian forest products in 2004-2006. (FCS of Russia, 2007)

Exporting item	2004			2005			2006		
	thousand tonnes or thousand m <sup>3</sup>	million USD	% to 2003 (USD)	thousand tonnes or thousand m <sup>3</sup>	million USD	% to 2004 (USD)	thousand tonnes or thousand m <sup>3</sup>	million USD	% to 2005 (USD)
<b>Round Wood</b>	41 381,60	2 333,50	136,4	47 937,90	2 856,30	122,4	51088,3	3259,1	114,1
<b>Processed Tim.</b>	7 642,60	1 510,40	132,4	8 998,80	1 899,00	125,7	9741,5	2311,1	121,7
<b>Plywood</b>	1 432,40	420,7	138,6	1 524,10	526	125	1570	556,1	105,72
<b>Cellulose</b>	1 830,90	683,4	114,1	1 920,90	746,3	109,2	1895,7	828,4	111
<b>Newsprint</b>	1 259,80	494,7	80,58	1 319,30	606,1	122,5	1258,5	636,6	105,03

As it can be seen from Table 3, round wood dominates in the structure of export of forest products in both monetary and absolute values and has positive dynamics. However, the Russian government aims to change this disproportion by introducing of higher export duties (they will be increased three times before 2010 as planned) for non-processed wood and decreasing at the same time all import tariffs on forest machines and equipment. In perspective, this protective measure will make exporting of round wood unprofitable and, hence, will stimulate domestic timber processing and helping to complete reforms in forestry. Currently, average export earnings from one cubic meter of timber do not exceed \$50. While, for example, in Finland they equal to \$224.5, \$163 in Sweden and \$120 – in Canada, as in Fig.6. (Gluhov, 2007)

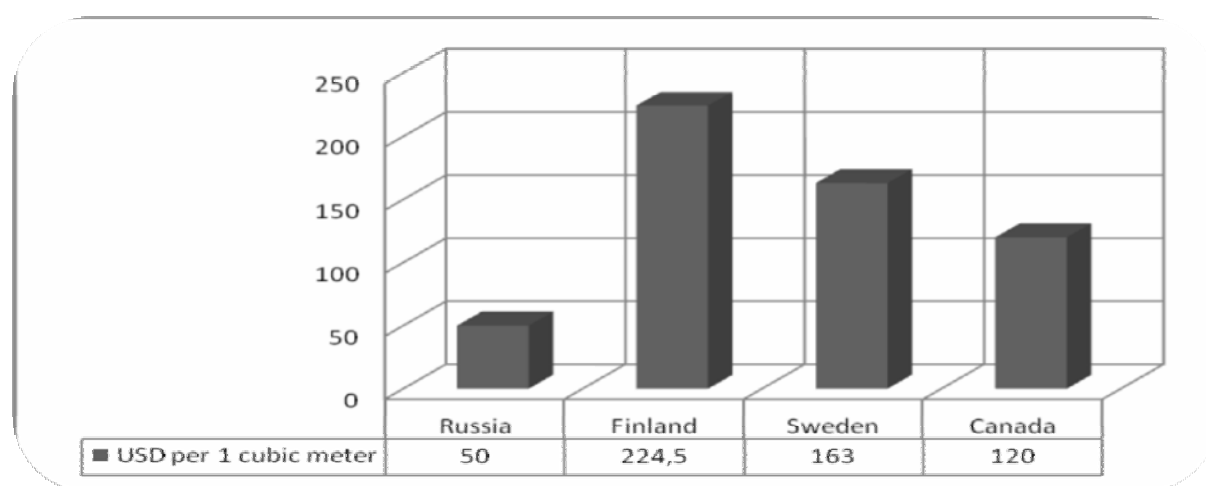


Figure 6. Export earnings per 1 cubic meter of produced timber in 2007 (Gluhov, 2007).

First, the industry requires state support for creation of large vertically integrated holding companies, which will be capable to run business in whole cycle from felling a tree to deep and complex wood processing. Second, it is well-known issue with forest infrastructure. In 2005 in Russia, for one thousand hectares of forests was built only 1.2 km. of forest roads. In the Northern Europe and North America, for example, this figure is 20-30 times higher. It is



necessary creating at least 8 thousand km. of such roads during next 5-7 years. On the other hand, it is extremely costly and risky project, because of weather and natural conditions in some areas. In these places, constructing even an automobile road seems very difficult, because of enormous production costs.

### **3.2. Information about studied companies**

Six Russian forest product companies have been analyzed in the thesis. In this paragraph they will be briefly introduced for the readers. The choice of companies is based on criteria shown in introduction.

#### **3.2.1. Arkhangelsk Paper and Pulp Mill**

The JSC Arkhangelsk Paper and Pulp Mill (APPM)<sup>1</sup> is one of the largest pulp-and-paper enterprises not only in Russia, but also in Europe. The APPM holds the second place on cellulose production and the first place in Russia on containerboard manufacturing. The Arkhangelsk Paper and Pulp Mill is presented in all basic segments of the pulp-and-paper market. On domestic and international markets, it supplies cellulose, paper, writing-books, cardboard, fibreboard panels and many other products. The annual sales of the company are about \$300 million (the quarter of that is formed from export sales). The largest shareholder of JSC “Arkhangelsk PPM” is Pulp Mill Holding GmbH (Austria) which possesses 65 % of shares. The APPM currently is on the “Top 300” of the largest industrial enterprises of Russia. Arkhangelsk PPM is a vertically integrated industrial holding including logging and wood processing firms, the business entities for reprocessing of pulp-and-paper production, sales and marketing organizations, service and maintaining firms. (WWF Russia, 2007) The APPM is the enterprise forming a company town called Novodvinsk. The company’s details are shown in Table 4.



---

<sup>1</sup> The image is taken from: <http://www.rusnord.ru/2004/1/8961>

Table 4. The APPM in brief. (WWF Russia, 2007)

<b>Production cycle:</b>	<b>Logging -&gt; Processing -&gt; Production-&gt; Distribution</b>
<b>Main products:</b>	Cellulose, paper, cardboard, wood-based panels, writing-books
<b>Production 2006:</b>	834 478 tonnes of pulp; 280 548 tonnes of cardboard; 81 443 tonnes of paper
<b>Main export markets:</b>	<b>Commercial cellulose:</b> the Netherlands, Austria, Germany, Poland, Italy, France <b>Container board:</b> the Netherlands, Germany, the Great Britain
<b>Strategy:</b>	APPM is oriented on deep processing of raw materials, and the integrated utilization of wood excluding exporting of round wood, consolidation of financial resources and their allocation on realization of investment projects. The main strategic goal is to produce high quality, ecologically clean products according to the world standards.
<b>Environmental policy:</b>	JSC APPM is the participant of Association of Ecologically responsible Producers of Russia. It is interested in certification of companies conducting harvesting of wood and delivering it for the further processing to APPM.
<b>Partners - Buyers:</b>	Western and Eastern Europe; Domestic market
<b>Web page:</b>	<a href="http://en.appm.ru/">http://en.appm.ru/</a>
<b>Fin. Statements</b>	Appendix 1: statements for the period 2004-2006 inclusive

### 3.2.2. *Mondi Business Paper Syktyvkar*

The JSC Mondi Business Paper Syktyvkar (MBP SY)<sup>2</sup> is one of the largest pulp and paper producers in Russia. The company is a part of Mondi Group within Mondi Business Paper division. It is situated in the Northeast of European Russia in the Komi Republic that is about 1100 km. from Moscow.



It employs over 8 thousand people and the total number of people dependent upon the MBP SY on their livelihood is 100 thousand. Mondi Business Paper Syktyvkar is also vertically integrated complex, controlling 10 logging companies in Komi, which supply the mill with raw materials. The MBP SY production facilities include one board machine and three papermaking machines. The company covers about 40 % of the total uncoated wood-free paper market in Russia and the Commonwealth of Independent States (CIS), and produces newsprint and linerboard for corrugated cardboard. (Mondi Group, 2007)

<sup>2</sup> The image is taken from: <http://www.mondigroup.com//desktopdefault.aspx/tabid-351/>

Table 5. The MBP SY in brief. (Mondi Group, 2007)

<b>Production cycle:</b>	<b>Logging -&gt; Processing -&gt; Production-&gt; Distribution</b>
<b>Main products:</b>	Office paper, offset paper, newsprint, linerboard for corrugated cardboard (“white top-liner” and “craft-liner”).
<b>Production 2006:</b>	580 000 tonnes of paper; 680 000 tonnes of pulp
<b>Main markets:</b>	Russia and CIS (export ~35 %)
<b>Strategy:</b>	The productive capacity of office paper is up to 200 thousand tonnes per year. It is a very promising market that grows by 10-15 % a year. Newsprint is also a profitable business for the MBP SY. The mill produces over 170 thousand tonnes of newsprint annually, which accounts for 10 % of the market. The company will keep its newsprint production at this level. The MBP SY produces over 190 thousand tonnes of board per year. The company exports about 50 % of its board.
<b>Environmental policy:</b>	Full and efficient control over the entire production process is one of the most important goals pursued by the company. Logging subsidiaries are working towards technical modernization. The company is preparing two “leskhoz” (forest management units) covering an area of 1.2 million ha. for voluntary certification according to the FSC standards.
<b>Partners - Buyers:</b>	CIS; Domestic market
<b>Web page:</b>	<a href="http://www.mondigroup.com/en">http://www.mondigroup.com/en</a>
<b>Fin. Statements</b>	Appendix 2: statements for the period 2004-2006 inclusive

### 3.2.3. Pitkäranta Cellulose Plant



The JSC Pitkäranta Cellulose Plant (PCP)<sup>3</sup> is located in Karelia on the north-eastern coast of the lake Ladoga – the biggest lake in Europe. The history of the plant goes back to the 1921. On the Pusun-Saari Island, a Norwegian entrepreneur has constructed a pulp mill with productivity of four thousand tonnes a year of bleached pulp. After the Northern war of 1939-40, the factory became Russian. In 1970s, Pitkäranta Cellulose Plant started to work at full speed, producing of 150 tonnes of pulp a day. Now, it is modern and advanced company in the Russian pulp industry. Main business activity for the enterprise is manufacturing of unbleached sulphate cellulose. The number of employees was 1095 people back in 2006. The Pitkäranta Plant also forms and supports a city with the same name giving job opportunities and social benefits for its inhabitants.

<sup>3</sup> The image is taken from: <http://pitadmin.onego.ru/index3.html>

Table 6. The PCP in brief. (Pitkäranta Cellulose Plant, 2007)

<b>Production cycle:</b>	<b>Purchasing of raw material -&gt; Processing -&gt; Distribution</b>
<b>Main products:</b>	Cellulose, tall oil, turpentine
<b>Production 2006:</b>	88,5 thousand tonnes of pulp
<b>Main markets:</b>	Export – 85 %; Russia~14 %
<b>Strategy:</b>	To improve the output of cellulose production by building new technological lines, that allows producing it with less expenses and high quality.
<b>Environmental policy:</b>	In 1987, building of structures on sanitation of the drainage outlet has been finished with the purpose of improvement of ecological situation in the basin of Ladoga Lake. These constructions are one of the best in Russia. In 1997, the new assembly of grading of cellulose has been installed that allowed reducing amount of a waste material three times. Collaterally with reconstruction, the Plant built a city, engineering infrastructure and treatment facilities of drinking water supply.
<b>Partners - Buyers:</b>	China, Finland, Germany and India
<b>Web page:</b>	<a href="http://pitzavod.onego.ru">http://pitzavod.onego.ru</a> (no English version available)
<b>Fin. Statements</b>	Appendix 3: statements for the period 2004-2006 inclusive

### 3.2.4. Segezha Pulp and Paper Mill



The JSC Segezha Paper and Pulp Mill (SPPM)<sup>4</sup> is also located in the Republic Karelia 700 km. to the North from Saint Petersburg. It is one of the oldest paper and pulp factories in the country. The SPPM is also the largest manufacturer of paper bags in Russia. The wrapping paper, bag paper and paper bags manufactured at the mill, are distributed in Russia, in the CIS countries and abroad. An automated control and management system of technological processes provide stability and high quality of production of the company. Introduction of modern technologies has increased competitiveness of production and, consequently, expanded the market while reducing expenses of production. The number of employees was 4518 people in 2006.

<sup>4</sup> The image is taken from: <http://www.allross.ru/karel/segega/index.htm>

Table 7. The SPPM in brief. (Segezha Paper and Pulp Mill, 2007)

<b>Production cycle:</b>	<b>Logging -&gt; Processing -&gt; Production -&gt; Distribution</b>
<b>Main products:</b>	Kraft paper, Kraft liner, paper bags, cardboard, processed timber
<b>Production 2006:</b>	Cellulose – 293 645 tonnes, Paper and cardboard – 276 624 tonnes, Paper bags – 345 048 000
<b>Main markets:</b>	Russia, Asia, Europe
<b>Strategy:</b>	Growth of volumes of production, modernization of operative equipment, introduction of new technologies, improvement of quality and assortment of production, revealing and involving to operation of an additional source of raw materials on the basis of sustainable forest use
<b>Environmental policy:</b>	The environmental policy of the Segezha Pulp and Paper Mill on wood procurement is directed to meet the environmental and silvicultural requirements of the Russian laws, to make minimum environmental impact on the natural forest values, and to maintain the secondary and traditional use of forest resources during harvesting all kinds of wood used by the company.
<b>Partners - Buyers:</b>	Australia, Bangladesh, Belgium, the Great Britain, Hungary, Vietnam, Germany, Greece, Denmark, Egypt, India, Indonesia, Cameroon, China, Kenya, Tunis, Turkey, Philippines and others
<b>Web page:</b>	<a href="http://www.scbk.ru/">http://www.scbk.ru/</a>
<b>Fin. Statements</b>	Appendix 4: statements for the period 2004-2006 inclusive

### 3.2.5. Syktyvkar Wood Processing Mill

The JSC “Syktyvkar Wood Processing Mill” (SWPM) like the MBP SY is situated in the Komi Republic. The company is one of the largest wood processing companies in the region. It produces over 150 thousand m<sup>3</sup> of timber per year. The SWPM currently employs 800 people and it is one of the largest business entities in the city. In the long-term perspective, the company plans to increase output by means of reconstruction, installation and putting into operation of the new modern equipment. The Syktyvkar Wood Processing Mill is trying to create a vertically integrated holding of timber companies, which will allow constant supply of production resources. The SWPM has already one subsidiary logging operator in the south of Komi. The company and its subsidiary are preparing to participate in the FSC certification process. The certificate of forest management and chain of custody will confirm its social, ecological, both economically balanced and sustainable management of forest resources. Table 8 shows the company’s main activities and policies.

Table 8. The SWPM in brief. (Syktyvkar Wood Processing Mill)

<b>Production cycle:</b>	<b>Buying raw material -&gt; Processing -&gt; Distribution</b>
<b>Main products:</b>	Industrial wood, pulp chips, saw timber, doors and windows, furniture
<b>Production 2006:</b>	Sawn timber – 165 000 m <sup>3</sup> ; pulp chips – 104 000 m <sup>3</sup>
<b>Main markets:</b>	Russia, CIS, Europe (Export ~50 %)
<b>Main raw materials:</b>	Spruce – 70 %; Pine – 30 %
<b>Strategy:</b>	Expanding of raw material base; modernization of production with increasing the output; increasing of labour productivity; establishing better control over the full chain of timber supply.
<b>Environmental policy:</b>	The policy of the SWPM in the field of environmental protection and social security is directly connected with problems of sustainable development of the company. Meeting with ecological, social and economic challenges is the pivotal problem in its development strategy. Within the company, there is an ongoing cooperation with other related sectors on utilizing of production residues (like cutting chips etc.). The SWPM has waste-free production and technological process.
<b>Contractors:</b>	Main logging companies of Komi within 300km. radius;
<b>Web page:</b>	<a href="http://www.leskomi.ru/">http://www.leskomi.ru/</a>
<b>Fin. Statements</b>	Appendix 5: statements for the period 2004-2006 inclusive

### **3.2.6. *The Koigorodok Timber Company***

The “Koigorodok Timber Company” LTD (KTC) is the only one “pure” timber logging company in the thesis. It is situated in Komi Republic 150 km. south from Syktyvkar. Its main office is located in Koidin village. The company is affiliated with the MBP SY as raw materials contractor. The KTC operates as one of its suppliers of timber within vertically organized holding. The Koigorodok Timber Company main activities are organization of timber felling processes (logging, haulage and tree-length crosscutting); forest products sales; leasing of movable and real estate belonging to the company on the right of property; commercial services. The company’s raw material base is shared within two forest management units of Komi – “leshozes” (Koigorodok leshoz and Kazhim leshoz). Productive forest area operated by the company is 57.8 thousand ha. with amount of standing wood equalled to 15.4 million m<sup>3</sup>. Mean volume of timber from one hectare of forestlands operated by the company is 266 m<sup>3</sup>. The KTC has one strategic advantage over its competitors – location in close vicinity to federal highway “Koigorodok-Syktyvkar”. This allows fast transportation of timber out of the forest regardless of weather conditions. Appendix 6 contains all obtained financial reports of the company for the period 2004-2006 inclusive.

### **3.3. *Accessibility of financial reports for the analysis***

As it was mentioned earlier, Russian forestry consists of many forest product companies (about 20 thousand). It is a huge work and impossible to analyze them all. That is why the scope of the thesis has been narrowed to only one Russian region, where results of analysis might be of the highest interest for the readers. Six studied companies belong to three federal regions of Russia: Karelia, Arkhangelsk oblast’ and the Komi Republic. These regions are part of the North-West administrative district - one of the most forested areas in the country. To find geographical position of the companies, let us find first the biggest cities of Russia - its two capitals. Let us look at Fig.7. Saint Petersburg is shown on the map as “Санкт-Петербург” and Moscow is written as “Москва”. Just for information, the linear distance from Moscow to the MBP SY is about 1100 kilometres. From Stockholm to the KTC is approximately 1800 kilometres straight.

The figure also represents all studied forest product companies with “pinpoints” on the map. Starting from left to right in clockwise direction there are: the PCP, the SPPM, the APPM, the MBP SY and the SWPM (both are in the same place) and the KTC. As it can be seen from it, the geography of companies is vast.

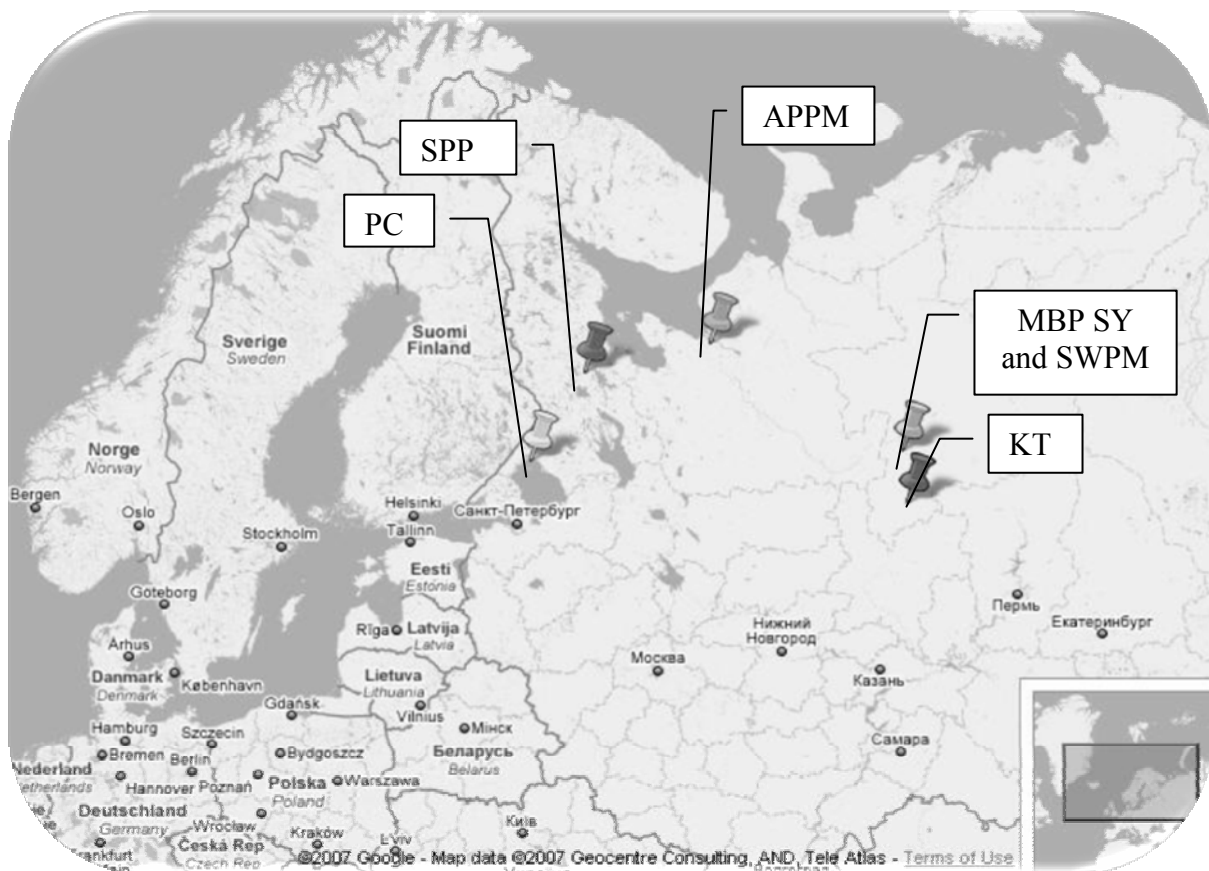


Figure 7. Geographical position of the studied companies (Google Maps).

Nevertheless, long distances of Russia should not be considered as main obstacle in obtaining accounting information for the analysis. This problem can be easily overcome with modern technologies such as the Internet and e-mail. Accessibility of financial information became the main difficulty of this project. From the chosen federal regions of Russia, fifteen forest product companies were initially selected followed by the criteria:

- different size of the companies (big, small and average);
- various profiles of activity and, hence, different products (paper, pulp, cardboard, wood processing, paper bags, furniture etc.);
- remote location from each other;
- selected businesses should not be competitors to each other (to make a “snapshot” of the industry).

However, none of these fifteen forest product companies answered to the e-mails. The project continuation has been seriously threatened. The situation with data collection seemed to be incomprehensible. To find out an explanation, a decision has been made to contact an expert on financial markets and informational disclosure. In a private conversation, Miss Oksana Kolomiets commented: “...It is very common, that forest product companies of Russia are usually small by size and prefer to keep legal form of a “company limited” (it gives some advantages with taxes). According to the regulations on financial markets in Russia, only

joint-stock companies must publish their financial reports and host them on web sites of company registrars. At the current level of economical development of the Russian Federation, all companies try to hide all financial information to avoid illicit mergers and acquisitions, which of course are not voluntary. Here is such a corporate reality of modern Russia...” This means that absence of official accounting reports on corporate web sites in Russia does not always mean that literally “there is something to hide”, but points out, perhaps, on a protective measures against illegal activities.

As it turned out, big companies however do keep their financial reports on corporate web pages in the Internet (not the MBP SY though). Financial reports of the APPM, the PCP and the SPPM were obtained from there. Table 9 sums up all the information regarding studied forest product companies such as their forms of ownership, main production profiles and sources of their financial reports.

*Table 9. Overview of the studied companies*

	<b>APPM</b>	<b>MBP SY</b>	<b>PCP</b>	<b>SPPM</b>	<b>SWPM</b>	<b>KTC</b>
Region	Arkhangelsk	Komi	Karelia	Karelia	Komi	Komi
Distance from the capital of Russia	~1000 km.	~1010 km.	~748 km.	~908 km.	~1010 km.	~945 km.
Ownership	JSC	JSC	JSC	JSC	JSC	Co LTD
Main production profile	Pulp, cardboard	Office paper, tissue	Cellulose	Kraft paper, paper bags	Processed timber, furniture	Logging
Accounting reports taken from official site of the company or:	x		x	x		
- from other sources		x			x	
- from a private contact						x
Accounting reports audited	yes	yes	yes	yes	no data	no data
Reports: - balance sheet	x	x	x	x	x	x
- income statement	x	x	x	x	x	x
№ in Appendix	1	2	3	4	5	6



## 4. The empirical study

*This chapter deals with financial analysis of the studied companies. It starts with studying of structure and changes that occurred in financial reports during the analyzed period. It continues by analysis of liquidity of balance sheets, which is considered as preparation for measurement of financial liquidity of a company. Ratio analysis and estimation of bankruptcy risks are the following parts of this chapter.*

### 4.1. Sequence of operations and logic of the chapter four

The chapter four, due to its complicity, requires thorough explanation of all operations that will be done according to methodology of the thesis. It is important that methodology of financial analysis used here, has been specially adapted for needs of the thesis (in a way of selection of methods that will “work” with particular financial statements). Obviously, every analyst uses his own set of tools and methods while performing financial analysis of a company. The thesis approach includes use of four groups of methods devoted to their specific needs and aims. The set of tools shown in Fig.8 corresponds to a sequence of operations (or applied methods so to say) of the thesis. Whenever required, the readers can refer to this scheme.

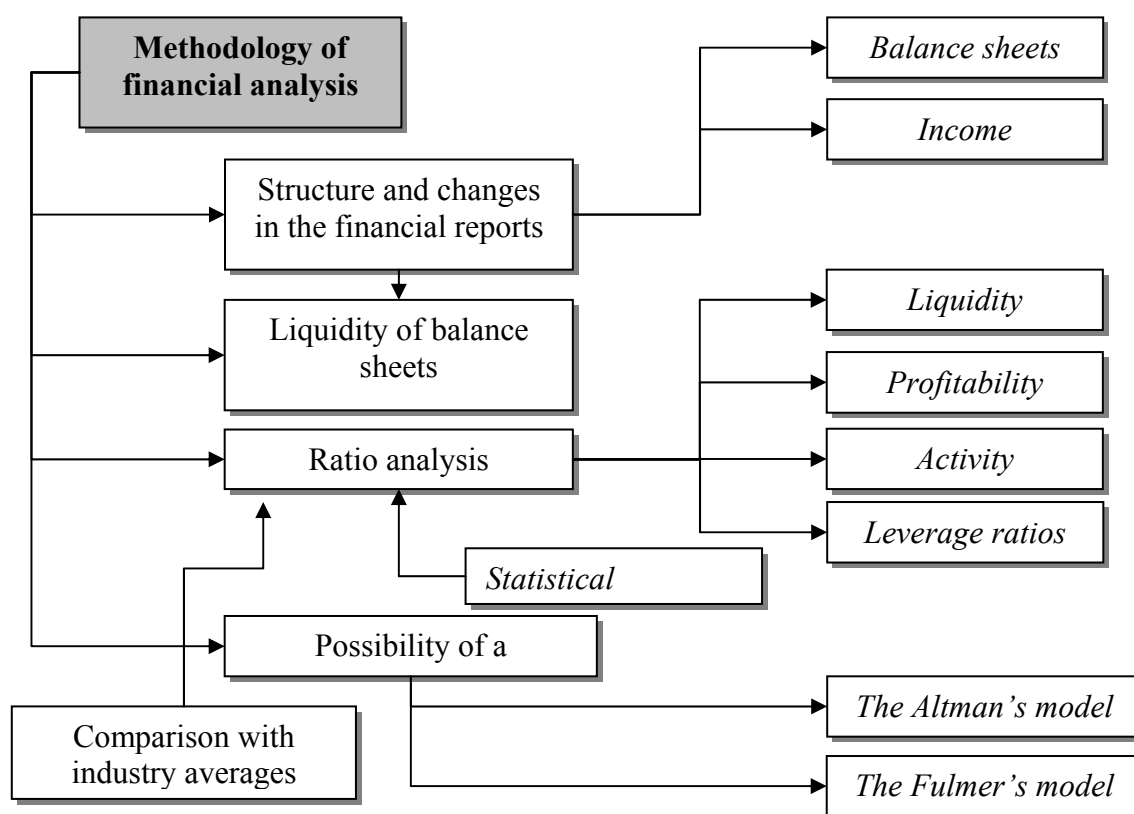


Figure 8. Logical scheme of chapter four.

The first logical step in the analysis sequence includes **studying of structure and changes in financial reports** (paragraphs 4.2 and 4.3). This allows evaluating the structure of assets and liabilities of a company according to its balance sheet. It gives the possibility not only to estimate the capital owned or controlled by organization, but also to allocate current and fixed

assets in its structure of capital. In addition, this method defines sources of formation of the company's capital. Studying of changes of profit allows answering questions as: 1) changes of net profit for a period (both in absolute and in relative values); 2) sources of its formation; 3) alterations in operational profit; 4) changes in tax burden. The complementary Fig.9 shows data presentation of the paragraph "structure and changes in financial reports".

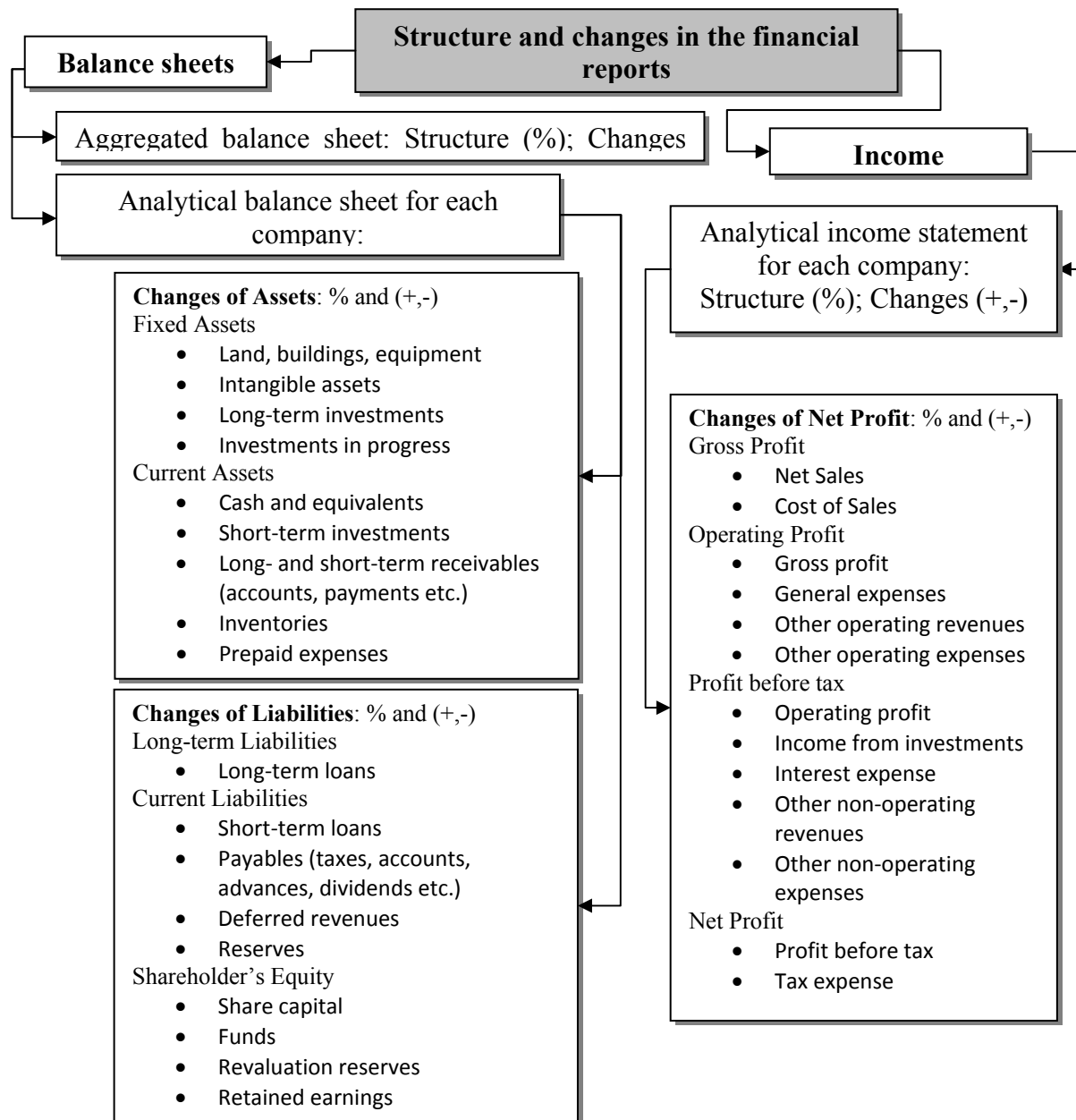


Figure 9. Structure of data presentation in paragraphs 4.2 and 4.3.

**Liquidity of balance sheet** (paragraph 4.4) is a first step in measuring company's liquidity. According to this method, ability of assets to cover balance sheets obligations defines liquidity of a company, which in terms of transformation into the money also corresponds to a degree of maturity of the company's obligations. Studying of changes and structure of balance sheets and income statements is important, because it gives an idea about the company's business development. Yet, this method is very basic, as it does not go deep into details and answer only to questions "what" and not to questions "why". It is impossible to evaluate a company's financial performance by analysing of its balance sheet changes and assets structure only, as

well as there is no way of doing it by just looking at a balance sheet. Only **ratio analysis** (paragraph 4.5) is suitable for it. Ratios are capable to reveal many patterns of relationship in financial reports. Four groups of ratios have been calculated and analyzed in the thesis for each company: liquidity ratios, profitability ratios, activity ratios and debt ratios (or financial leverage ratios) as it shown in Fig.10. Statistical evaluation allows defining best and worst performing forest products company judging by its financial ratios.

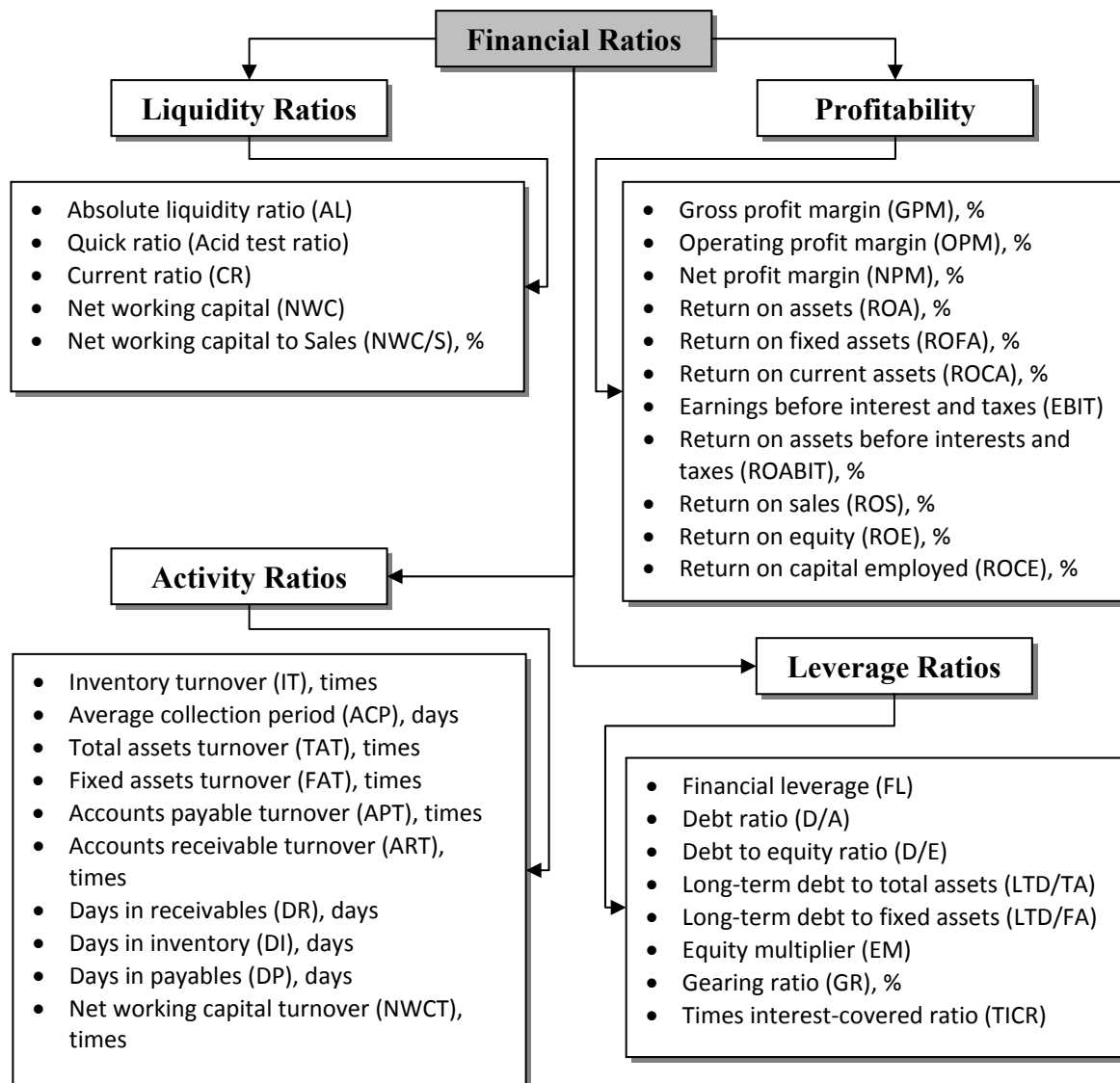


Figure 10. Financial ratios used in the thesis.

**Possibility of a bankruptcy** (paragraph 4.6) deals with prediction of financial failure. This approach uses two methods: the Altman's model and the Fulmer's model. Besides the matter of probability, these methods are trustworthy enough to make a good prognosis of a bankruptcy.

The term "**analyzed period**" means an interval in three years (from 2004 until 2006) that corresponds with obtained financial reports in Appendixes. The term "**analyzed companies**" stands for the group of six Russian forest product companies selected for the thesis.

## 4.2. Structure and changes in the financial reports

Table 10 presents aggregated balance sheet for the entire group of six Russian forest product companies. It provides useful information about assets and liabilities of companies and their structure.

Table 10. Balance sheets structures of analyzed companies (thousand RUR)

№	VALUE	APPM			MBP SY			PCP		
		2004	2005	2006	2004	2005	2006	2004	2005	2006
1	Total Assets	6967304	8221005	8687094	12639257	13867168	14499744	1110106	1147726	1076660
1.1	Fixed assets									
a)	total	4594788	5844286	6499881	8506543	9379556	9742769	842025	862070	822120
b)	in % to balance	65,95	71,09	74,82	67,30	67,64	67,19	75,85	75,11	76,36
1.2	Current assets									
a)	total	2372516	2376719	2187213	4132714	4487612	4756975	268081	285656	254540
b)	in % to balance	34,05	28,91	25,18	32,70	32,36	32,81	24,15	24,89	23,64
2	Sh. Equity and Liabilities	6967304	8221005	8687094	12639257	13867168	14499744	1110106	1147726	1076660
2.1	Owned									
a)	total	4168269	4310296	5059016	9524970	9147191	9018132	1026420	936032	916426
b)	in % to balance	59,83	52,43	58,24	75,36	65,96	62,20	92,46	81,56	85,12
2.2	Borrowed									
a)	current liabilities	1559357	1647331	1258929	2909631	3849622	2494988	71925	194368	132393
b)	in % to balance	22,38	20,04	14,49	23,02	27,76	17,21	6,48	16,94	12,30
c)	long-term liabilities	1239678	2263378	2369149	204656	870355	2986624	11761	17326	27841
d)	in % to balance	17,79	27,53	27,27	1,62	6,28	20,60	1,06	1,51	2,59

№	VALUE	SPPM			SWPM			KTC		
		2004	2005	2006	2004	2005	2006	2004	2005	2006
1	Total Assets	7853220	7062739	11821323	269895	400543	551572	124626	259419	192832
1.1	Fixed assets									
a)	total	3909193	4510123	9141893	126865	122809	243699	65001	189573	147059
b)	in % to balance	49,78	63,86	77,33	47,01	30,66	44,18	52,16	73,08	76,26
1.2	Current assets									
a)	total	3944027	2552616	2679430	143030	277734	307873	59625	69846	45773
b)	in % to balance	50,22	36,14	22,67	52,99	69,34	55,82	47,84	26,92	23,74
2	Sh. Equity and Liabilities	7853220	7062739	11821323	269895	400543	551572	124626	259419	192832
2.1	Owned									
a)	total	1928672	2036356	3086682	115341	118923	118426	12809	33121	44108
b)	in % to balance	24,56	28,83	26,11	42,74	29,69	21,47	10,28	12,77	22,87
2.2	Borrowed									
a)	current liabilities	3747040	2681263	4609626	30704	183051	151062	85290	133847	133607
b)	in % to balance	47,71	37,96	38,99	11,38	45,70	27,39	68,44	51,59	69,29
c)	long-term liabilities	2177508	2345120	4125015	123850	98569	282084	26527	92451	15117
d)	in % to balance	27,73	33,20	34,89	45,89	24,61	51,14	21,29	35,64	7,84

In addition, it is necessary to create additional analytical table showing changes of all figures listed in the previous table. Table 11 helps to visualise changes occurred with balance sheet values during the analyzed period. Based on approach presented in part 2.1.2, such table will contain the following: 1) “ $\Delta 2005$ ”, “ $\Delta 2006$ ” – absolute changes for the periods; 2) “%2006 to 2005” – relative changes for last period; 3) VALUE – main balance sheet accounts.

The information gained from analytical tables 10 and 11 allows estimating capital structure of the balance sheets horizontally and vertically. The largest company defined by the amount of its total assets is Mondi Business Paper Syktyvkar - 14.5 billion RUR in 2006 (5 % increase) and 13.9 billion RUR in 2005. Another two companies share the second place. They are the Segezha Mill (11.8 billion RUR in 2006 (67 % increase) and 7.1 billion RUR in 2005) and the Arkhangelsk Mill (8.7 billion RUR in 2006 (6 % increase) and 8.2 billion RUR in 2005). Pitkäranta Plant is the fourth largest forest product company in the thesis with 1.1 billion RUR

of total assets in 2006 (and similar amount in 2005 and 2004). Syktyvkar Wood processing Mill had 0.6 billion RUR accounted as total assets on its balance sheet in 2006. The company demonstrated growth of this figure in comparison with previous years. On the last place is the Koigorodok Company with the lowest total assets value among studied forest product companies – 192.8 million RUR in 2006; 259.4 million in 2005 and 124.6 million in 2004.

Table 11. Changes of main balance sheet accounts in 2005-2006 (thousand RUR)

№	VALUE	APPM			MBP SY			PCP		
		Δ2005	Δ2006	%2006 to 2005	Δ2005	Δ2006	%2006 to 2005	Δ2005	Δ2006	%2006 to 2005
1	Total Assets	1253701	466089	1,06	1227911	632576	1,05	37620	-71066	0,94
1.1	Fixed assets	1249498	655595	1,11	873013	363213	1,04	20045	-39950	0,95
1.2	Current assets	4203	-189506	0,92	354898	269363	1,06	17575	-31116	0,89
2	Shareholders' Equity and Liabilities	1253701	466089	1,06	1227911	632576	1,05	37620	-71066	0,94
2.1	Owned	142027	748720	1,17	-377779	-129059	0,99	-90388	-19606	0,98
2.2	Borrowed									
a)	current liabilities	87974	-388402	0,76	939991	-1354634	0,65	122443	-61975	0,68
b)	long-term liabilities	1023700	105771	1,05	665699	2116269	3,43	5565	10515	1,61

№	VALUE	SPPM			SWPM			KTC		
		Δ2005	Δ2006	%2006 to 2005	Δ2005	Δ2006	%2006 to 2005	Δ2005	Δ2006	%2006 to 2005
1	Total Assets	-790481	4758584	1,67	130648	151029	1,38	134793	-66587	0,74
1.1	Fixed assets	600930	4631770	2,03	-4056	120890	1,98	124572	-42514	0,78
1.2	Current assets	-1391411	126814	1,05	134704	30139	1,11	10221	-24073	0,66
2	Shareholders' Equity and Liabilities	-790481	4758584	1,67	130648	151029	1,38	134793	-66587	0,74
2.1	Owned	107684	1050326	1,52	3582	-497	1,00	20312	10987	1,33
2.2	Borrowed									
a)	current liabilities	-1065777	1928363	1,72	152347	-31989	0,83	48557	-240	1,00
b)	long-term liabilities	167612	1779895	1,76	-25281	183515	2,86	65924	-77334	0,16

Distribution of total assets (to current assets and fixed assets) can also be studied from Table 10. A good proportion between fixed and current assets is required for successful business operations. While it depends on type of activities of a company, percentage of current and fixed assets should be equal approximately to 60-70 % of fixed assets and 30-40 % of current assets in the total balance. These figures are considered as normal in Russian financial analysis practices. Excesses of current assets may be result of wrong financial policy. There is one forest product company in the thesis, which had ineffective assets structure during the analyzed period. According to Table 10, it was the SWPM (47/53 in 2004, 31/69 in 2005 and 44/56 percent in 2006 of fixed/current assets respectively).

Formation of a company's capital can be fulfilled both at expense of its own and at borrowed funds. For definition of financial stability and degree of dependence on loan proceeds, it is necessary to analyze structure of liabilities of the balance sheets. In general, the less a company owes to others, the more stable financial position it has. Table 10 provides useful insights on this matter.

There is no "universal" rule regarding proportion between owned and borrowed funds a company operates as shown in its balance sheet. However, a company whose assets are formed from its own capital is usually considered more financially stable than a firm relying on external finances is. Table 10 shows that the Pitkäranta plant has the highest percentage of own capital in its balance sheet (92.5 % in 2004; 85.1 % in 2006) and the Koigorodok timber company has the lowest (10.3 % in 2004; 12.8 % in 2005). Ratio analysis of financial leverage will provide more information about financial stability of these companies.

#### 4.2.1. Structure of balance sheet of the APPM at the end of 2006

At the end of 2006, the APPM's total assets increased by 466.1 million RUR (or by 6 %), that indirectly may indicate to an expansion of operating turnover. In the structure of assets, fixed assets constituted almost 75 % and current assets exceeded the level of 25 % (Table 10). The change in the assets structure was affected by growth of fixed assets on 655.6 million RUR (or by 11 %) and decrease of current assets by 189.5 million RUR (-8 %). Usually, reduction of current assets makes capital of a company less mobile (by lowering its liquidity). Changes of assets structure in 2006 were mainly connected with changes of sums of long-term assets. The alteration in structure of **fixed assets** in the analyzed period was associated with changes in the following components:

- Land, buildings and equipment in the analyzed period increased on 2.2 billion RUR (+61.5 %) according to Table 12;
- Intangible assets decreased by 30 thousand RUR (-39.5 %);
- Long-term investments lessened by 7.6 million RUR (-1.5 %);
- Not completed investments decreased by 1.5 billion RUR (-91.6 %).

Table 12. Structure of balance sheet of the APPM at the end of 2006 (thousand RUR)

VALUE	2004	2005	Δ2005	%	2006	Δ2006	%
<b>CURRENT ASSETS</b>	<b>2372516</b>	<b>2376719</b>	<b>4203</b>	<b>100,18</b>	<b>2187213</b>	<b>-189506</b>	<b>92,03</b>
CASH AND CASH EQUIVALENTS	52487	49417	-3070	94,15	78313	28896	158,47
SHORT-TERM INVESTMENTS							
SHORT-TERM RECEIVABLES:	1538971	1297844	-241127	84,33	1087021	-210823	83,76
Accounts and notes receivables	879231	617416	-261815	70,22	650373	32957	105,34
Intercompany receivables	1115	1115	0	100,00	1115	0	100,00
Other receivables	658625	679313	20688	103,14	435533	-243780	64,11
LONG-TERM RECEIVABLES	36189	344907	308718	953,07	367811	22904	106,64
INVENTORIES:	688881	665741	-23140	96,64	630716	-35025	94,74
Materials and components	547196	543727	-3469	99,37	459525	-84202	84,51
Work in progress	35151	32084	-3067	91,27	31098	-986	96,93
Finished goods	105826	88844	-16982	83,95	139712	50868	157,26
Other inventories	708	1086	378	153,39	381	-705	35,08
PREPAID EXPENSES	55988	18805	-37183	33,59	23352	4547	124,18
OTHER CURRENT ASSETS		5	5			-5	-
<b>LONG-TERM ASSETS</b>	<b>4594788</b>	<b>5844286</b>	<b>1249498</b>	<b>127,19</b>	<b>6499881</b>	<b>655595</b>	<b>111,22</b>
LAND, BUILDINGS AND EQUIPMENT	3244418	3561533	317115	109,77	5750730	2189197	161,47
INTANGIBLES	105	76	-29	72,38	46	-30	60,53
LONG-TERM INVESTMENTS	88468	499133	410665	564,20	491487	-7646	98,47
INVESTMENTS IN PROGRESS	1141869	1665267	523398	145,84	140336	-1524931	8,43
OTHER LONG-TERM INVESTMENTS	119928	118277	-1651	98,62	117282	-995	99,16
<b>TOTAL ASSETS</b>	<b>6967304</b>	<b>8221005</b>	<b>1253701</b>	<b>117,99</b>	<b>8687094</b>	<b>466089</b>	<b>105,67</b>
<b>CURRENT LIABILITIES</b>	<b>1559357</b>	<b>1647331</b>	<b>87974</b>	<b>105,64</b>	<b>1258929</b>	<b>-388402</b>	<b>76,42</b>
SHORT-TERM LOANS	616062	574447	-41615	93,24	390409	-184038	67,96
PAYABLES:	929225	939828	10603	101,14	721987	-217841	76,82
Accounts and notes payable	566239	642795	76556	113,52	525251	-117544	81,71
Taxes payable	45576		-45576	-		0	
Intercompany payables		19963	19963		20086	123	100,62
Advances from customers	31691	38519	6828	121,55	12015	-26504	31,19
Dividends payable	147	259	112	176,19	385	126	148,65
Other payables	285572	238292	-47280	83,44	164250	-74042	68,93
DEFERRED REVENUES	14070	16082	2012	114,30	16750	668	104,15
RESERVES FOR FUTURE EXPENSES		116974	116974		129783	12809	110,95
OTHER CURRENT LIABILITIES							
<b>LONG-TERM LIABILITIES</b>	<b>1239678</b>	<b>2263378</b>	<b>1023700</b>	<b>182,58</b>	<b>2369149</b>	<b>105771</b>	<b>104,67</b>
LONG-TERM LOANS	1153496	2153011	999515	186,65	2234434	81423	103,78
OTHER LONG-TERM LIABILITIES	86182	110367	24185	128,06	134715	24348	122,06
<b>SHAREHOLDERS' EQUITY</b>	<b>4168269</b>	<b>4310296</b>	<b>142027</b>	<b>103,41</b>	<b>5059016</b>	<b>748720</b>	<b>117,37</b>
SHARE CAPITAL	780	780	0	100,00	780	0	100,00
RESERVES AND FUNDS	117	117	0	100,00	117	0	100,00
REVALUATION RESERVES	2143642	2138102	-5540	99,74	2136264	-1838	99,91
RETAINED EARNINGS	2023783	2171297	147514	107,29	2922107	750810	134,58

OTHER SHAREHOLDER'S CAPITAL	-53		53	-	-252	-252	
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>6967304</b>	<b>8221005</b>	<b>1253701</b>	<b>117,99</b>	<b>8687094</b>	<b>466089</b>	<b>105,67</b>

Reduction of intangible assets for the period, tells us about absence of innovative orientation in activities of the company in 2006. Decrease of long-term investments is always considered as an evidence of reducing investments in long-term assets. Such reduction is clearly observed in Table 12. In the part of **current assets** in 2006, the following changes occurred:

- Monetary resources increased for the period by 28.9 million RUR (+58.5 %);
- Short-term receivables decreased by 210.8 million RUR (-16 %);
- Inventories decreased by 35 million RUR (-5.3 %);
- Prepaid expenses increased by 4.5 million RUR (+24.2 %);
- Other current assets decreased by 5 thousand RUR.

Share of current assets in the structure of capital changed in 2006 with negative 3.7 % and constituted 25.2 % (Table 10). Still, it is a good figure. Increased amounts of cash and cash equivalents signify irrational financial policy. Increase of debt receivables should be considered as negative trend for the structure of balance sheet. It is most likely, that the APPM had problems with receiving of payments for products shipped to customers. For accounting department of the company is necessary to analyze (by means of internal analysis) all debt accounts of every client to reveal reasons and occurrence frequency of such debts.

Fig.11 presents changes of main balance sheet items for the analyzed period of the APPM. The growth of total assets, long-term assets and shareholders equity is clearly observed. On the diagram, current assets and current liabilities have downward tendency.

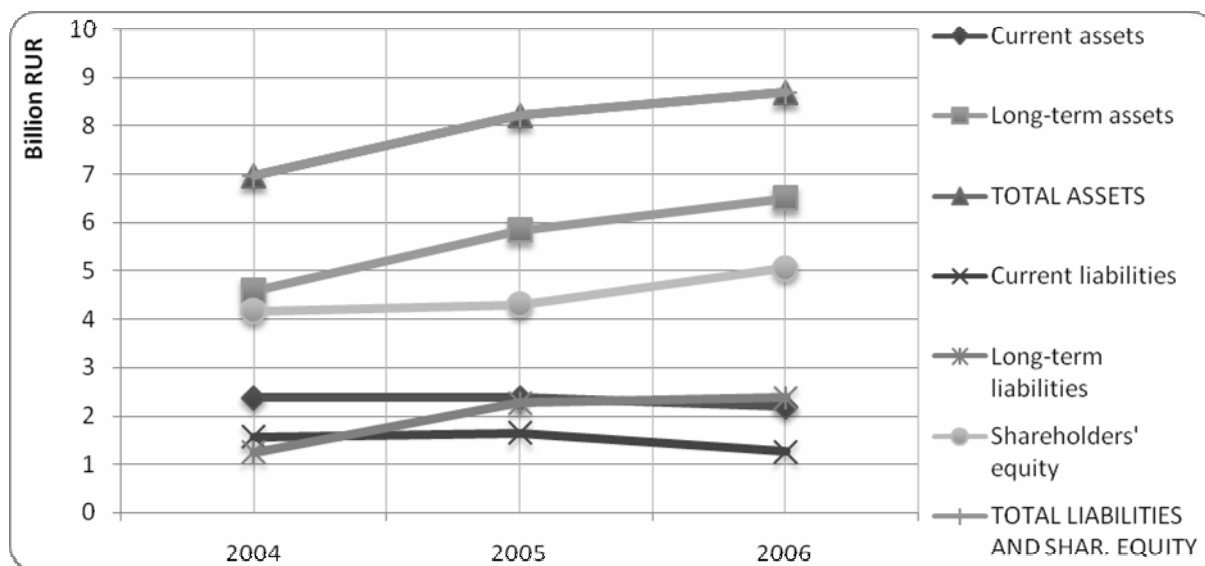


Figure 11. Changes of main balance sheet accounts of the APPM for 2004-2006.

At the end of the analyzed period, share of **own capital** (as basic source of formation of company's capital), increased in the structure of liabilities and constituted 58 % at the end of 2006. In absolute expression, the own capital increased by 748.7 million RUR (+17.4 %). The following components that affected this change were:

- Additional capital (revaluation reserves), which decreased by 1.8 million RUR (-0.1 %);
- Retained earnings, which increased by 750.8 million RUR (+34.6 %);

In the structure of **own capital** at the end of the analyzed period the specific weight of:

- Additional capital was equal to 42 %  $((2136264/5059016)*100)$  as in Table 12;
- and Retained earnings were equal to 58 %;

Sums of long-term liabilities at the end of the analyzed period increased by 4.7 % and rose to the level of 2.4 billion RUR (Table 12). Current liabilities were equal to 1.3 billion RUR (-23.6 % in comparison with 2005). Reduction of **current liabilities** was connected with the change of following components:

- Short-term loans constituted 390 million RUR (-32 %);
- Payables formed 722 million RUR (-23.2 %);
- Deferred incomes amounted to 16.7 million RUR (+4.2 %);
- Reserves of forthcoming expenses and payments were equal to 129.8 million RUR (+11 %).

Reduction of short-term sources of financing, reflected in the structure of liabilities, means that during analyzed period was an improvement of the balance sheet structure that decreased risk of losing financial stability. The **composition of payables** at the end of 2006 was the following:

- Accounts and bills payable equalled to 72.8 %  $((525251/721987)*100)$ ;
- Intercompany payables equalled to 2.8 %;
- Received advances from customers – 1.7 %;
- Dividends payable – 0.1 %;
- Other creditor debts were 22.8 %.

At the beginning of the analyzed period, the company's receivables exceeded all sums of payables, i.e. the APPM had so-called active balance. At the end of the period, the company had active debt balance, i.e. there were possibilities to grant a loan to debtors, exceeding amounts received as delays of payments to creditors.

#### 4.2.2. Structure of balance sheet of the MBP SY at the end of 2006

As shown in Table 13, total assets of the MBP SY in the analyzed period increased by 632.6 million RUR (+4.6 %) that indirectly indicate certain expansion of operating cycle of the company. Changes in assets structure were affected by 3.9 % growth of long-term assets on 363 million RUR and 6 % growth of current assets on 269.4 million RUR. From financial point of view, this denotes positive results because capital of the company became more mobile.

The changes in assets structure were mainly affected by changes of current assets. In addition, alterations of **long-term assets** during the analyzed period were connected with the following:

- Land, buildings and equipment increased by 145.5 million RUR (+2 %);



- Intangible assets increased by 35.6 million RUR (+75 %);
- Long-term investments decreased by 1.2 million RUR (-43.8 %);
- Not completed investments increased by 96.3 million RUR (+5.5 %).

Increase in amounts of intangible assets in 2006 points out to innovative orientation of the company's activities. It is undoubtedly positive fact. Similar to the APPM, reduction of long-term investments is considered as negative tendency that testified to absence of innovative activities in the company's development. Proportion of current assets in the structure of balance at the end of 2006 changed with 0.5 % and was equal to 32.8 %. At the end of the analyzed period, **current assets** of the company were under the following changes:

- Cash and financial securities decreased by 57.5 million RUR (-54.3 %);
- Short-term receivables increased by 372.8 million RUR (+17.1 %);
- Inventories decreased by 59 million RUR (-3 %);
- Prepaid expenses increased by 46 million RUR (+29 %);
- Other current assets increased by 2 million RUR (+25.4 %).

Table 13. Structure of balance sheet of the MBP SY at the end of 2006 (thousand RUR)

VALUE	2004	2005	Δ2005	%	2006	Δ2006	%
<b>CURRENT ASSETS</b>	<b>4132714</b>	<b>4487612</b>	<b>354898</b>	<b>108,59</b>	<b>4756975</b>	<b>269363</b>	<b>106,0</b>
CASH AND CASH EQUIVALENTS	176009	105905	-70104	60,17	48429	-57476	45,73
SHORT-TERM INVESTMENTS	36711		-36711	-			
SHORT-TERM RECEIVABLES:	2142515	2182355	39840	101,86	2555114	372759	117,08
Accounts and notes receivables	1126616	1088945	-37671	96,66	1562287	473342	143,47
Intercompany receivables							
Other receivables	1015899	1093410	77511	107,63	992827	-100583	90,80
LONG-TERM RECEIVABLES	198702	184541	-14161	92,87	149271	-35270	80,89
INVENTORIES:	1501117	1846667	345550	123,02	1787658	-59009	96,80
Materials and components	1126458	1399287	272829	124,22	1347151	-52136	96,27
Work in progress	176076	222771	46695	126,52	216583	-6188	97,22
Finished goods	195303	224571	29268	114,99	223924	-647	99,71
Other inventories	3280	38	-3242	1,16		-38	-
PREPAID EXPENSES	76168	160155	83987	210,27	206486	46331	128,93
OTHER CURRENT ASSETS	1492	7989	6497	535,46	10017	2028	125,38
<b>LONG-TERM ASSETS</b>	<b>8506543</b>	<b>9379556</b>	<b>873013</b>	<b>110,26</b>	<b>9742769</b>	<b>363213</b>	<b>103,87</b>
LAND, BUILDINGS AND EQUIPMENT	6915278	7434844	519566	107,51	7580373	145529	101,96
INTANGIBLES	109767	47502	-62265	43,28	83118	35616	174,98
LONG-TERM INVESTMENTS	60436	2738	-57698	4,53	1538	-1200	56,17
INVESTMENTS IN PROGRESS	1334625	1766105	431480	132,33	1862360	96255	105,45
OTHER LONG-TERM INVESTMENTS	86437	128367	41930	148,51	215380	87013	167,78
<b>TOTAL ASSETS</b>	<b>12639257</b>	<b>13867168</b>	<b>1227911</b>	<b>109,72</b>	<b>14499744</b>	<b>632576</b>	<b>104,6</b>
<b>CURRENT LIABILITIES</b>	<b>2909631</b>	<b>3849622</b>	<b>939991</b>	<b>132,31</b>	<b>2494988</b>	<b>-1354634</b>	<b>64,81</b>
SHORT-TERM LOANS	1662473	2423360	760887	145,77	1200893	-1222467	49,55
PAYABLES:	1237372	1286627	49255	103,98	1285430	-1197	99,91
Accounts and notes payable	368365	693222	324857	188,19	759432	66210	109,55
Taxes payable	225445	141209	-84236	62,64	160592	19383	113,73
Intercompany payables							
Advances from customers							
Dividends payable	3522	4437	915	125,98	5398	961	121,66
Other payables	640040	447759	-192281	69,96	360008	-87751	80,40
DEFERRED REVENUES	5188	138512	133324	2 669,85	5596	-132916	4,04
RESERVES FOR FUTURE EXPENSES	4598	1123	-3475	24,42	3069	1946	273,29
OTHER CURRENT LIABILITIES							
<b>LONG-TERM LIABILITIES</b>	<b>204656</b>	<b>870355</b>	<b>665699</b>	<b>425,28</b>	<b>2986624</b>	<b>2116269</b>	<b>343,15</b>
LONG-TERM LOANS		557516	557516		2567010	2009494	460,44
OTHER LONG-TERM LIABILITIES	204656	312839	108183	152,86	419614	106775	134,13
<b>SHAREHOLDERS' EQUITY</b>	<b>9524970</b>	<b>9147191</b>	<b>-377779</b>	<b>96,03</b>	<b>9018132</b>	<b>-129059</b>	<b>98,59</b>
SHARE CAPITAL	387560	387560	0	100,00	387560	0	100,00
RESERVES AND FUNDS	63650	66509	2859	104,49	72722	6213	109,34
REVALUATION RESERVES	3296632	3280404	-16228	99,51	3260865	-19539	99,40
RETAINED EARNINGS	5777128	5412718	-364410	93,69	5296985	-115733	97,86
OTHER SHAREHOLDER'S CAPITAL							
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>12639257</b>	<b>13867168</b>	<b>1227911</b>	<b>109,72</b>	<b>14499744</b>	<b>632576</b>	<b>104,6</b>

Table 13 shows analytical balance sheet of the MBP SY for the analyzed period and fig.12 represents changes of main articles. All calculations described in this chapter are based on data obtained from analytical balance sheets (and from Table 10 and Table 11). In Fig.11, one can observe a good combination of trends for main balance sheet accounts. Only shareholder's equity and current liabilities have downward tendency. Even so, decreasing of latter is relatively a good fact.

At the end of the analyzed period, proportion of own capital in the structure of balance decreased and was equalled to 62.2 %. For the company, it indirectly means "losing" of financial independence and, hence, to increase of financial risks because of the main source of formation of the capital shifted to borrowed funds. In absolute figures, the amount of own capital decreased by 129.1 million RUR (-1.4 %). Components of the **own capital** that affected this change were:

- Revaluation reserves that decreased by 19.5 million RUR (-0.6 %);
- Reserves and funds that increased by 6.2 million RUR (+9 %);
- Retained earnings decreased by 115.7 million RUR (-2 %).

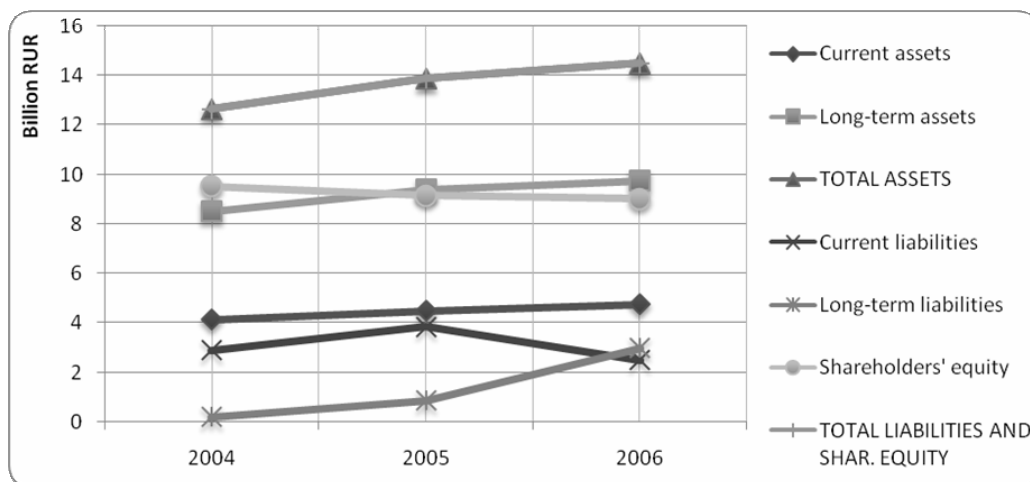


Figure 12. Changes of main balance sheet accounts of the MBP SY for 2004-2006.

At the end of 2006, structure of own capital of the company was the following:

- Share capital 4.3 %;
- Additional capital 36.2 %;
- Reserves and funds 0.8 %;
- Retained earnings 58.7 %.

Sums of long-term liabilities at the end of the analyzed period increased by 243.2 % and amounted to 3 billion RUR. Current liabilities were equal to 2.5 billion RUR (and decreased by 35.2 %). The reduction of **current liabilities** was directly connected with changes of the following components:

- Short-term loans equalled to 1.2 billion RUR (-50.5 %);
- Payables equalled to 1.3 billion RUR (-0.1 %);
- Deferred revenues equalled to 5.6 million RUR that also decreased by 96 %;
- Reserves of forthcoming expenses equalled to 3.1 million RUR (+174 %).

Reducing of short-term liabilities for the period, improved balance sheet structure and diminished risk of losing financial stability for the MBP SY. At the beginning of 2006, the company's receivables has been exceeding sums of payables, therefore, the MBP SY had active balance.

#### 4.2.3. Structure of balance sheet of the PCP at the end of 2006

In the balance sheet's assets structure of the PCP at the end of the analyzed period, long-term assets constituted 76.4 % and current assets were 23.6 % correspondingly (Table 10). The total assets (as shown in Table 14) decreased by 71 million RUR (-6.2 %) that can indirectly signify sagging of operating activities. Changes in assets structure were affected by reduction of long-term assets by 40 million RUR (-4.6 %) and decrease of current assets by 31 million RUR (-11 %) at the same time. Such situation leads to a conclusion about reduction of main operations that made capital of the company less mobile in 2006.

Table 14. Structure of balance sheet of the PCP at the end of 2006 (thousand RUR)

VALUE	2004	2005	Δ2005	%	2006	Δ2006	%
<b>CURRENT ASSETS</b>	<b>268081</b>	<b>285656</b>	<b>17575</b>	<b>106,56</b>	<b>254540</b>	<b>-31116</b>	<b>89,11</b>
CASH AND CASH EQUIVALENTS	3843	21346	17503	555,45	12130	-9216	56,83
SHORT-TERM INVESTMENTS							
SHORT-TERM RECEIVABLES:	133522	143366	9844	107,37	107547	-35819	75,02
Accounts and notes receivables	31677	26509	-5168	83,69	34198	7689	129,01
Intercompany receivables							
Other receivables	101845	116857	15012	114,74	73349	-43508	62,77
LONG-TERM RECEIVABLES	50895	51800	905	101,78	51800	0	100,00
INVENTORIES:	78717	68488	-10229	87,01	82487	13999	120,44
Materials and components	75963	64584	-11379	85,02	70843	6259	109,69
Work in progress	651	999	348	153,46	1203	204	120,42
Finished goods	2103	2905	802	138,14	10441	7536	359,41
Other inventories							
PREPAID EXPENSES	1104	656	-448	59,42	576	-80	87,80
OTHER CURRENT ASSETS							
<b>LONG-TERM ASSETS</b>	<b>842025</b>	<b>862070</b>	<b>20045</b>	<b>102,38</b>	<b>822120</b>	<b>-39950</b>	<b>95,37</b>
LAND, BUILDINGS AND EQUIPMENT	799005	773570	-25435	96,82	756403	-17167	97,78
INTANGIBLES	18	16	-2	88,89	14	-2	87,50
LONG-TERM INVESTMENTS	1661	1761	100	106,02	1761	0	100,00
INVESTMENTS IN PROGRESS	21899	37561	15662	171,52	12107	-25454	32,23
OTHER LONG-TERM INVESTMENTS	19442	49162	29720	252,86	51835	2673	105,44
<b>TOTAL ASSETS</b>	<b>1110106</b>	<b>1147726</b>	<b>37620</b>	<b>103,39</b>	<b>1076660</b>	<b>-71066</b>	<b>93,81</b>
<b>CURRENT LIABILITIES</b>	<b>71925</b>	<b>194368</b>	<b>122443</b>	<b>270,24</b>	<b>132393</b>	<b>-61975</b>	<b>68,11</b>
SHORT-TERM LOANS	15080	97926	82846	649,38	53058	-44868	54,18
PAYABLES:	56845	96442	39597	169,66	79334	-17108	82,26
Accounts and notes payable	29598	54964	25366	185,70	38717	-16247	70,44
Taxes payable	10793	13268	2475	122,93	11870	-1398	89,46
Intercompany payables							
Advances from customers	12485	23088	10603	184,93	22284	-804	96,52
Dividends payable							
Other payables	3969	5122	1153	129,05	6463	1341	126,18
DEFERRED REVENUES					1	1	
RESERVES FOR FUTURE EXPENSES							
OTHER CURRENT LIABILITIES							
<b>LONG-TERM LIABILITIES</b>	<b>11761</b>	<b>17326</b>	<b>5565</b>	<b>147,32</b>	<b>27841</b>	<b>10515</b>	<b>160,69</b>
LONG-TERM LOANS							
OTHER LONG-TERM LIABILITIES	11761	17326	5565	147,32	27841	10515	160,69
<b>SHAREHOLDERS' EQUITY</b>	<b>1026420</b>	<b>936032</b>	<b>-90388</b>	<b>91,19</b>	<b>916426</b>	<b>-19066</b>	<b>97,91</b>
SHARE CAPITAL	6792	6792	0	100,00	6792	0	100,00
RESERVES AND FUNDS							
REVALUATION RESERVES	899151	890773	-8378	99,07	888004	-2769	99,69
RETAINED EARNINGS	120477	38467	-82010	31,93	21630	-16837	56,23
OTHER SHAREHOLDER'S CAPITAL							
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>1110106</b>	<b>1147726</b>	<b>37620</b>	<b>103,39</b>	<b>1076660</b>	<b>-71066</b>	<b>93,81</b>

Decreasing sums of **fixed assets** changed the assets structure at the end of 2006. This was conditioned by the following:

- Land, buildings and equipment changed on 17.2 million RUR (-2 %);
- Intangibles decreased by 2 thousand RUR (-12.5 %);
- Sums of investments in progress increased by 25.5 million RUR (+68 %).

Alteration of **current assets** of the PCP was influenced by:

- Cash and cash equivalents that decreased by 9.2 million RUR (-43 %);
- Short-term receivables that also decreased by 35.8 million RUR (-25 %);
- Inventories that increased by 14 million RUR (+20.5 %);
- Prepaid expenses that decreased by 80 thousand RUR (-12.2 %).

At the end of 2006, **current assets** in the total amount of assets equalled to 23.6 % (decrease by 1.3 % in comparison with 2005). Total amount of shareholder's equity (the main source of formation of capital for the company) increased in 2006 by 98 %. This is a sign of relative gain in financial independence for the PCP and that diminished financial risks because company's assets were formed from the most stable sources. In absolute figures, total amount of own capital decreased by 19.6 million RUR (-2 %). Main components of the **shareholder's equity** that affected this change in 2006 were:

- Revaluation reserves that decreased by 2.8 million RUR (-0.3 %);
- Retained earnings that decreased by 16.8 million RUR (-44 %).

The shareholder's equity in 2006 consisted of share capital (0.7 %), additional capital (as revaluation reserves) with 97 % and retained earnings (2.3 %).

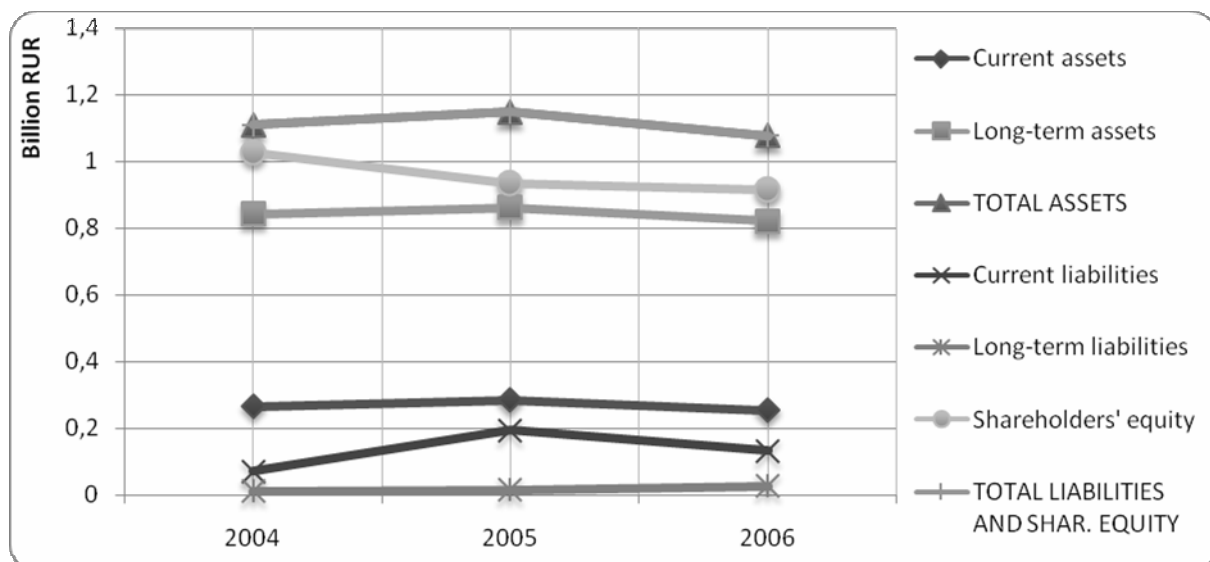


Figure 13. Changes of main balance sheet accounts of the PCP for 2004-2006.

Fig.13 shows trend of changes in the main balance sheet accounts of the PCP during the analyzed period. Decrease in total assets, current assets and in shareholder's equity of the company is clearly observed.

At the end of 2006, total amount of **long-term liabilities** increased by 60.7 %. Sums of current obligations were equal to 132.4 million RUR (-32 %). Such reduction of **current liabilities** was connected with changes of the following components:

- Short-term loans (53 million RUR), which decreased by 46 %;
- Sums of payables (79.3 million RUR), which decreased by 18 %.

Analysis of structure of financial commitments tells us about prevalence of short-term sources of financing in structure of liabilities of the PCP that has negative sense characterising inefficient structure of balance and high risk of losing financial stability in future. On the other hand, reduction of short-term liabilities may lead to a certain improvement of the balance structure.

**Structure of payables** at the end of the analyzed period was the following:

- Accounts and notes payable equalled to 49 %;
- Taxes payable equalled to 15 %;
- Advance payments received equalled to 28 %;
- Other creditor debts with 8 %.

At the beginning of 2006, comparison of payables with receivables shows excess of the first over the last, i.e. the company had an active balance. At the end of the period, there is similar situation.

#### **4.2.4. Structure of balance sheet of the SPPM at the end of 2006**

In the assets structure of the SPPM at the end of 2006 (according to data from Tables 10 and 11) fixed assets were equal to 77 % while current assets were equal to 23 %. **Total amount of company's assets** increased substantially by 4.8 billion RUR (+67.4 %) due to substantial growth of long-term investments (Table 15). This can be connected to an expansion of business activities. The change of assets structure was influenced by increase of fixed assets by 4.6 billion RUR (+103 %) and increase of current assets by 127 million RUR (+ 5 %).

The change in the assets structure was affected, mainly, by change of fixed assets. Alterations in the structure of **long-term assets** were connected with the change of following components:

- Land, buildings and equipment increased by 306.6 million RUR (+8.1 %);
- Intangible assets decreased by 14 thousand RUR (-21.5 %);
- Long-term investments increased by 4.4 billion RUR (+3921 % (!));
- Not completed investments decreased by 205 million RUR (-42 %).

Reduction of intangible assets for the period may indicate an absence of innovations in the company. Significant (or even massive) increasing of long-term investments (if they are directed on renewal of fixed assets) is considered as positive fact for business development (fig.14).

The proportion of current assets in balance sheet of the SPPM changed during the period with negative 13.5 % and constituted 22.7 %. Cash and other quick assets increased that may give evidence to irrational financial policy of the company. Reduction of short-term investments in

the balance structure tells us about deceleration of business activities in 2006. The total amount of **current assets** at the end of 2006 was changed under influence of the following:

- Money and its equivalents increased by 10.2 million RUR (+9 %);
- Short-term investments decreased by 9.5 million RUR (-5 %);
- Short-term receivables increased by 141 million RUR (+10 %);
- Inventories and materials decreased by 21.8 million RUR (-2.6 %);
- Prepaid expenses increased by 6.8 million RUR (+31.4 %).

Table 15. Structure of balance sheet of the SPPM at the end of 2006 (thousand RUR)

VALUE	2004	2005	Δ2005	%	2006	Δ2006	%
<b>CURRENT ASSETS</b>	<b>3944027</b>	<b>2552616</b>	<b>-1391411</b>	<b>64,72</b>	<b>2679430</b>	<b>126814</b>	<b>104,97</b>
CASH AND CASH EQUIVALENTS	1678855	109481	-1569374	6,52	119700	10219	109,33
SHORT-TERM INVESTMENTS	177297	181111	3814	102,15	171614	-9497	94,76
SHORT-TERM RECEIVABLES:	1414399	1405798	-8601	99,39	1546885	141087	110,04
Accounts and notes receivables	690958	1258257	567299	182,10	1463869	205612	116,34
Intercompany receivables							
Other receivables	723441	147541	-575900	20,39	83016	-64525	56,27
LONG-TERM RECEIVABLES							
INVENTORIES:	669543	834622	165079	124,66	812849	-21773	97,39
Materials and components	505847	533291	27444	105,43	536109	2818	100,53
Work in progress	47237	79790	32553	168,91	85260	5470	106,86
Finished goods	116459	221541	105082	190,23	191480	-30061	86,43
Other inventories							
PREPAID EXPENSES	3933	21604	17671	549,30	28382	6778	131,37
OTHER CURRENT ASSETS							
<b>LONG-TERM ASSETS</b>	<b>3909193</b>	<b>4510123</b>	<b>600930</b>	<b>115,37</b>	<b>9141893</b>	<b>4631770</b>	<b>202,70</b>
LAND, BUILDINGS AND EQUIPMENT	3404002	3789523	385521	111,33	4096183	306660	108,09
INTANGIBLES	80	65	-15	81,25	51	-14	78,46
LONG-TERM INVESTMENTS	116293	116253	-40	99,97	4557870	4441617	3 920,65
INVESTMENTS IN PROGRESS	328466	486880	158414	148,23	282029	-204851	57,93
OTHER LONG-TERM INVESTMENTS	60352	117402	57050	194,53	205760	88358	175,26
<b>TOTAL ASSETS</b>	<b>7853220</b>	<b>7062739</b>	<b>-790481</b>	<b>89,93</b>	<b>11821323</b>	<b>4758584</b>	<b>167,38</b>
<b>CURRENT LIABILITIES</b>	<b>3747040</b>	<b>2681263</b>	<b>-1065777</b>	<b>71,56</b>	<b>4609626</b>	<b>1928363</b>	<b>171,92</b>
SHORT-TERM LOANS	1397947	1773785	375838	126,88	2455492	681707	138,43
PAYABLES:	2325191	870340	-1454851	37,43	2114126	1243786	242,91
Accounts and notes payable	2213116	693843	-1519273	31,35	750048	56205	108,10
Taxes payable	26571	92881	66310	349,56	101365	8484	109,13
Intercompany payables							
Advances from customers							
Dividends payable	6436	6426	-10	99,84		-6426	-
Other payables	79068	77190	-1878	97,62	1262713	1185523	1 635,85
DEFERRED REVENUES		19	19		42	23	221,05
RESERVES FOR FUTURE EXPENSES	23902	37108	13206	155,25	39960	2852	107,69
OTHER CURRENT LIABILITIES		11	11		6	-5	54,55
<b>LONG-TERM LIABILITIES</b>	<b>2177508</b>	<b>2345120</b>	<b>167612</b>	<b>107,70</b>	<b>4125015</b>	<b>1779895</b>	<b>175,90</b>
LONG-TERM LOANS	2155226	2267273	112047	105,20	4024341	1757068	177,50
OTHER LONG-TERM LIABILITIES	22282	77847	55565	349,37	100674	22827	129,32
<b>SHAREHOLDERS' EQUITY</b>	<b>1928672</b>	<b>2036356</b>	<b>107684</b>	<b>105,58</b>	<b>3086682</b>	<b>1050326</b>	<b>151,58</b>
SHARE CAPITAL	537200	537200	0	100,00	537200	0	100,00
RESERVES AND FUNDS	31979	31979	0	100,00	31979	0	100,00
REVALUATION RESERVES	656490	634461	-22029	96,64	630728	-3733	99,41
RETAINED EARNINGS	702985	832716	129731	118,45	1886775	1054059	226,58
OTHER SHAREHOLDER'S CAPITAL	18		-18	-		0	
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>7853220</b>	<b>7062739</b>	<b>-790481</b>	<b>89,93</b>	<b>11821323</b>	<b>4758584</b>	<b>167,38</b>

Proportion of **shareholder's equity** in the balance structure decreased at the end of 2006 and became equal to 26 %. In addition, the parity of total obligations and own capital for the period tended to increase. It shows relative reducing of financial independence of the company and high financial risks. In absolute figures, total amount of shareholder's equity increased by 1.1 billion RUR (+51.6 %).

Changes of **own capital** were affected by changes in the following components:

- Revaluation reserves that decreased by 3.7 million RUR (-0.6 %);
- Retained earnings that increased by 1.1 billion RUR (+126.6 %).

In the total structure of own capital, the percent of share capital was equal to 17.5 %, revaluation reserves were equal to 20.5 %, reserves and funds – 1 %, and retained earnings – 61 %. Total amount of **long-term liabilities** at the end of the analyzed period increased by 76 % and was equal to 4 billion RUR. Current liabilities also increased by 4.6 billion RUR in absolute figures (+72 %). The increase of **current liabilities** in 2006 was connected with change of the following components:

- Short-term loans that increased by 0.7 million RUR (+38 %);
- Sums of payables that increased by 1.2 million RUR (+143 %);
- Deferred revenues that increased by 23 thousand RUR (+121.1 %);
- Reserves of future expenses that increased by 2.9 million RUR (+7.7 %);
- Other current liabilities that decreased by 5 thousand RUR (-45.5 %).

Fig.14 contains graphical representation of changes that occurred with main balance sheet accounts of the SPPM in the analyzed period. The most noticeable increase was with fixed assets and, hence, with total assets of the company.

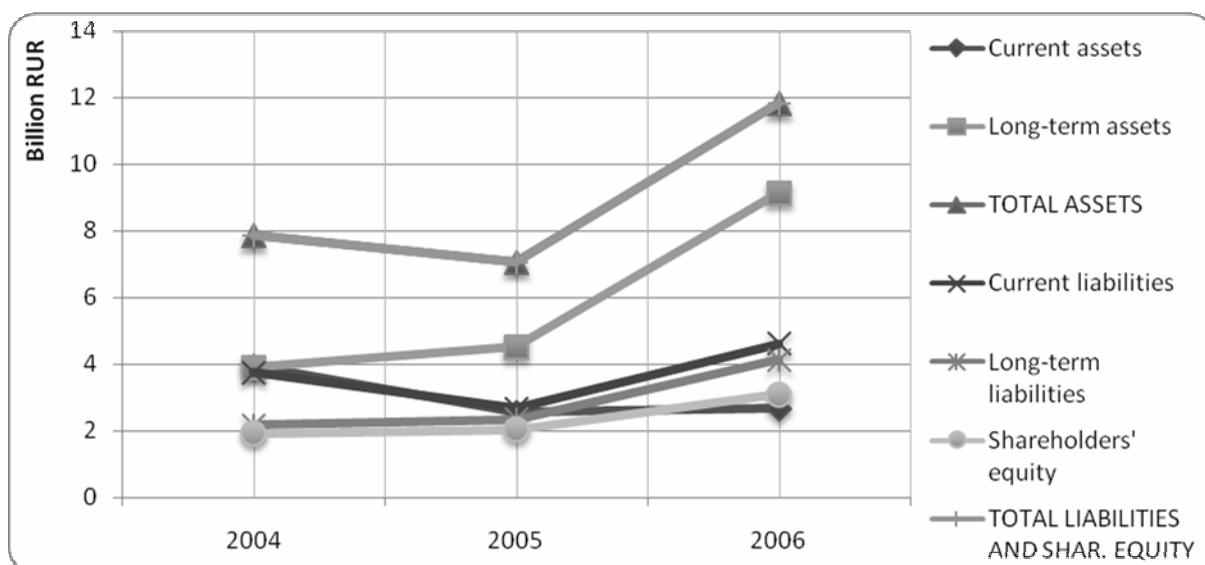


Figure 14. Changes of main balance sheet accounts of the SPPM for 2004-2006.

Structural analysis of liabilities of the SPPM shows dominance of short-term sources of financing that can be interpreted negatively because of inefficient organization of balance and high risk of losing financial independence. In addition, payables increased by 143 % that prejudices the company's relations with its business partners. The **structure of payables** at the end of the analyzed period consisted from the following:

- Accounts and bills payable – 35.5 %;
- Taxes – 4.8 %;
- Other creditors – 59.7 %.

Comparison of receivables with payables shows active balance that the SWPM had at the beginning of 2006. However, at the end of the period, amount of payables exceeded receivables with 567 million RUR. This means that activities of the company were financed by its debts or delays in payments to creditors and business partners.

#### 4.2.5. Structure of balance sheet of the SWPM at the end of 2006

At the end of the analyzed period, balance structure of the company consisted of long-term assets (with 44.2 %) and current assets with 55.8 %. In 2006, total amount of assets increased by 151 million RUR (+37.7 %) as shown in Table 16. This means expansion of operating activities of the SWPM for the period.

Table 16. Structure of balance sheet of the SWPM at the end of 2006 (thousand RUR)

VALUE	2004	2005	Δ2005	%	2006	Δ2006	%
<b>CURRENT ASSETS</b>	<b>143030</b>	<b>277734</b>	<b>134704</b>	<b>194,18</b>	<b>307873</b>	<b>30139</b>	<b>110,85</b>
CASH AND CASH EQUIVALENTS	6062	13692	7630	225,87	7209	-6483	52,65
SHORT-TERM INVESTMENTS	8100	76207	68107	940,83	37689	-38518	49,46
SHORT-TERM RECEIVABLES:	53465	147638	94173	276,14	195780	48142	132,61
Accounts and notes receivables	38803	70632	31829	182,03	97519	26887	138,07
Intercompany receivables							
Other receivables	14662	77006	62344	525,21	98261	21255	127,60
LONG-TERM RECEIVABLES							
INVENTORIES:	43310	35777	-7533	82,61	60996	25219	170,49
Materials and components	20513	22882	2369	111,55	36245	13363	158,40
Work in progress	4138	3621	-517	87,51	19593	15972	541,09
Finished goods	18659	9274	-9385	49,70	5158	-4116	55,62
Other inventories							
PREPAID EXPENSES	91	4420	4329	4 857,14	6198	1778	140,23
OTHER CURRENT ASSETS	32002		-32002	-	1	1	
<b>LONG-TERM ASSETS</b>	<b>126865</b>	<b>122809</b>	<b>-4056</b>	<b>96,80</b>	<b>243699</b>	<b>120890</b>	<b>198,44</b>
LAND, BUILDINGS AND EQUIPMENT	75792	70411	-5381	92,90	164509	94098	233,64
INTANGIBLES	18		-18	-	8	8	
LONG-TERM INVESTMENTS	50200	50200	0	100,00		-50200	-
INVESTMENTS IN PROGRESS	480	1579	1099	328,96	78908	77329	4 997,34
OTHER LONG-TERM INVESTMENTS	375	619	244	165,07	274	-345	44,26
<b>TOTAL ASSETS</b>	<b>269895</b>	<b>400543</b>	<b>130648</b>	<b>148,41</b>	<b>551572</b>	<b>151029</b>	<b>137,71</b>
<b>CURRENT LIABILITIES</b>	<b>30704</b>	<b>183051</b>	<b>152347</b>	<b>596,18</b>	<b>151062</b>	<b>-31989</b>	<b>82,52</b>
SHORT-TERM LOANS		63263	63263		73060	9797	115,49
PAYABLES:	28825	116403	87578	403,83	78002	-38401	67,01
Accounts and notes payable	5256	65012	59756	1 236,91	60293	-4719	92,74
Taxes payable	4214	4998	784	118,60	5781	783	115,67
Intercompany payables							
Advances from customers							
Dividends payable							
Other payables	19355	46393	27038	239,70	11928	-34465	25,71
DEFERRED REVENUES							
RESERVES FOR FUTURE EXPENSES							
OTHER CURRENT LIABILITIES	1879	3385	1506	180,15		-3385	-
<b>LONG-TERM LIABILITIES</b>	<b>123850</b>	<b>98569</b>	<b>-25281</b>	<b>79,59</b>	<b>282084</b>	<b>183515</b>	<b>286,18</b>
LONG-TERM LOANS	123850	98569	-25281	79,59	209501	110932	212,54
OTHER LONG-TERM LIABILITIES					72583	72583	
<b>SHAREHOLDERS' EQUITY</b>	<b>115341</b>	<b>118923</b>	<b>3582</b>	<b>103,11</b>	<b>118426</b>	<b>-497</b>	<b>99,58</b>
SHARE CAPITAL	110000	110000	0	100,00	110000	0	100,00
RESERVES AND FUNDS							
REVALUATION RESERVES	25	25	0	100,00	25	0	100,00
RETAINED EARNINGS	5316	8898	3582	167,38	8401	-497	94,41
OTHER SHAREHOLDER'S CAPITAL							
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>269895</b>	<b>400543</b>	<b>130648</b>	<b>148,41</b>	<b>551572</b>	<b>151029</b>	<b>137,71</b>

Alteration of assets structure of the SWPM in 2006 was affected by growth of sums of long-term assets on 121 million RUR (+98 %) and current assets on 30 million RUR (+11 %).

Changes in structure of **long-term** assets in the analyzed period were connected with changes of the following components:



- Land, buildings and equipment increased by 94.1 million RUR (+133.6 %);
- Intangible assets increased by 8 thousand RUR;
- Long-term investments decreased by 50 million RUR;
- Investments in progress increased by 77 million RUR (+4897 %).

The growth of intangibles and non-completed investments for the period may indicate an expansion of innovative activities of the SWPM. Total amount of **current assets** of the company changed under the influence of the following components:

- Cash and cash equivalents decreased by 6.5 million RUR (-47.4 %);
- Short-term investments decreased by 38.5 million RUR (-50.5 %);
- Short-term receivables increased by 4.8 million RUR (+32.6 %);
- Inventories increased by 25 million RUR (+70.5 %);
- Prepaid expenses increased by 1.8 million RUR (+40 %);

- ther current assets increased by 1 thousand RUR.

The percent of current assets in balance structure of the SWPM changed at the end of the period by negative 13.5 % and was equal to 55.8 %. Reduction of short- and long-term investments means deceleration of business development for the company. Although, substantial increase of total assets that shown in Fig.15 may indicate an operating expansion.

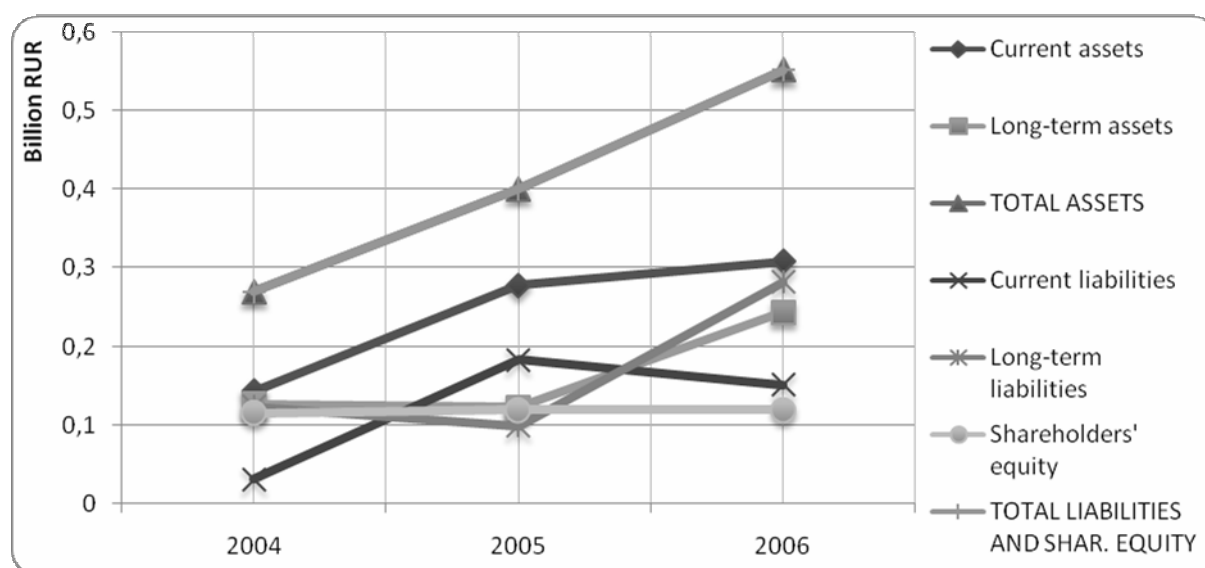


Figure 15. Changes of main balance sheet accounts of the SWPM for 2004-2006.

The percent of shareholder's equity in the balance structure decreased at the end of 2006 and became equal to 21.5 %. In absolute figures, shareholder's equity decreased by 497 thousand RUR (-0.4 %). Main component of the shareholder's equity that affected its change in 2006 were retained earnings that decreased by 497 thousand RUR (-5.6 %). In the structure of shareholder's equity share capital was equal to 92.9 %, revaluation reserves – 0.02 %, retained earnings – 7.1 %.

Long-term liabilities increased by 186.2 % at the end of 2006 and were equal to 282 million RUR. Current obligations equalled to 151 million RUR decreased by 17.5 %. Reduction of **current liabilities** was connected with changes of the following components:

- Short-term loans increased by 9.8 million RUR (+15.5 %);
- Accounts payable decreased by 38 million RUR (-33 %).

Reduction of current liabilities in the structure of balance shows improvements of the balance and diminishes risk of losing solvency. In the structure of payables, notes and accounts payable were equal to 77.3 %, tax liabilities - 7.4 %, other accounts payable were equal to 5.3 %. Comparing receivables and payables of the SWPM to the beginning of 2006, we can see that the amount of receivables exceeded sums of accounts payable, in other words the company had surplus of money. At the end of the period, the SWPM had indebtedness surplus of money, so the company had possibility to grant their debtors a goods credit from sums of accounts payable. This is one of signs of stable financial position.

#### **4.2.6. Structure of balance sheet of the KTC at the end of 2006**

At the end of the analyzed period, structure of assets of the KTC consisted of long-term assets with 76.3 % and current assets with 23.7 % correspondingly. Total balance value decreased by 66.6 million RUR (-25.7 %). As shown in Table 17, changes of assets structure were affected by decreasing both of long-term assets by 42.5 million RUR (-22.4 %) and current assets by 24.1 million RUR (-34.5 %). Lessening of current assets made capital of the company less mobile. However, it is indirect symptom of estimation of financial stability. Ratio analysis will provide better evaluation for it in forthcoming paragraphs.

Changes of assets structure were primarily affected by changes of **long-term** assets. These changes in the analyzed period were associated with alterations of the following components:

- Land, buildings and equipment increased by 11 million RUR (+10.8 %);
- Non-completed investments decreased by 50.4 million RUR (-82.5 %).

Total amount of **current assets** changed in 2006 because of the following changes:

- Cash and equivalents increased by 178 thousand RUR (+63 %);
- Short-term receivables decreased by 19.3 million RUR (-38.6 %);
- Inventories decreased by 4.2 million RUR (-22.5 %);
- Prepaid expenses decreased by 840 thousand RUR (-73.5 %);
- Other current assets increased by 3 thousand RUR.

The share of current assets decreased for the period by 3.2 % and was equal to 23.7 % at the end of 2006. Increasing of cash and equivalents may lead to a conclusion about irrational financial policy of the KTC. At the end of the analyzed period, **shareholder's equity** part almost doubled in the structure of balance. In absolute figures, it increased by 1.1 million RUR (+33.2 %). The following components of the shareholder's equity affected this change:

- Share capital increased by 17.4 million RUR (+32 %);
- Revaluation reserves increased by 8.5 million RUR (+69 %);
- Retained earnings decreased by 14.7 million RUR (-43.5 %).

Table 17. Structure of balance sheet of the KTC at the end of 2006 (thousand RUR)

VALUE	2004	2005	Δ2005	%	2006	Δ2006	%
<b>CURRENT ASSETS</b>	<b>59625</b>	<b>69846</b>	<b>10221</b>	<b>117,14</b>	<b>45773</b>	<b>-24073</b>	<b>65,53</b>
CASH AND CASH EQUIVALENTS	3133	283	-2850	9,03	461	178	162,90
SHORT-TERM INVESTMENTS							
SHORT-TERM RECEIVABLES:	24353	49945	25592	205,09	30684	-19261	61,44
Accounts and notes receivables	7273	21860	14587	300,56	8494	-13366	38,86
Intercompany receivables							
Other receivables	17080	28085	11005	164,43	22190	-5895	79,01
LONG-TERM RECEIVABLES							
INVENTORIES:	20381	18475	-1906	90,65	14322	-4153	77,52
Materials and components	6289	7825	1536	124,42	6125	-1700	78,27
Work in progress	3329	8854	5525	265,97	7980	-874	90,13
Finished goods	10763	1796	-8967	16,69	217	-1579	12,08
Other inventories							
PREPAID EXPENSES	11758	1143	-10615	9,72	303	-840	26,51
OTHER CURRENT ASSETS					3	3	
<b>LONG-TERM ASSETS</b>	<b>65001</b>	<b>189573</b>	<b>124572</b>	<b>291,65</b>	<b>147059</b>	<b>-42514</b>	<b>77,57</b>
LAND, BUILDINGS AND EQUIPMENT	28715	101565	72850	353,70	112520	10955	110,79
INTANGIBLES							
LONG-TERM INVESTMENTS							
INVESTMENTS IN PROGRESS	20669	61080	40411	295,52	10717	-50363	17,55
OTHER LONG-TERM INVESTMENTS	15617	26928	11311	172,43	23822	-3106	88,47
<b>TOTAL ASSETS</b>	<b>124626</b>	<b>259419</b>	<b>134793</b>	<b>208,16</b>	<b>192832</b>	<b>-66587</b>	<b>74,33</b>
<b>CURRENT LIABILITIES</b>	<b>85290</b>	<b>133847</b>	<b>48557</b>	<b>156,93</b>	<b>133607</b>	<b>-240</b>	<b>99,82</b>
SHORT-TERM LOANS		5000	5000		5000	0	100,00
PAYABLES:	67607	88396	20789	130,75	105470	17074	119,32
Accounts and notes payable	48051	68972	20921	143,54	43716	-25256	63,38
Taxes payable	4694	2462	-2232	52,45	3424	962	139,07
Intercompany payables							
Advances from customers							
Dividends payable							
Other payables	14862	16962	2100	114,13	58330	41368	343,89
DEFERRED REVENUES	17682	39784	22102	225,00		-39784	-
RESERVES FOR FUTURE EXPENSES		665	665		994	329	149,47
OTHER CURRENT LIABILITIES	1	2		200,00	22143	22141	1 107 150,0
<b>LONG-TERM LIABILITIES</b>	<b>26527</b>	<b>92451</b>	<b>65924</b>	<b>348,52</b>	<b>15117</b>	<b>-77334</b>	<b>16,35</b>
LONG-TERM LOANS							
OTHER LONG-TERM LIABILITIES	26527	92451	65924	348,52	15117	-77334	16,35
<b>SHAREHOLDERS' EQUITY</b>	<b>12809</b>	<b>33121</b>	<b>20312</b>	<b>258,58</b>	<b>44108</b>	<b>10987</b>	<b>133,17</b>
SHARE CAPITAL	10	54463	54453	544 630,0	71818	17355	131,87
RESERVES AND FUNDS		145	145			-145	-
REVALUATION RESERVES	12069	12312	243	102,01	20790	8478	168,86
RETAINED EARNINGS	730	-33799	-34529	- 4 630,00	-48500	-14701	143,50
OTHER SHAREHOLDER'S CAPITAL							
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>124626</b>	<b>259419</b>	<b>134793</b>	<b>208,16</b>	<b>192832</b>	<b>-66587</b>	<b>74,33</b>

Reduction of **current liabilities** was connected with changes of the following components:

- Accounts payable increased by 17.1 million RUR (+19.3 %);
- Reserves of future expenses increased by 329 thousand RUR (+49.5 %);
- Other current liabilities increased by 22.1 million RUR.

Analysis of liabilities structure indicates prevalence of short-term sources of financing in the structure of loan proceeds. This has negative meaning and characterizes inefficient structure of the company's balance and high risk of losing financial independence. In the structure of payables at the end of the analyzed period, accounts and notes payable were equal to 41.5 %, tax obligations were equal to 3.3 % and other accounts payable were equal to 55.3 %.

As shown in Fig.16 on the next page, one can see diagram of main balance sheet accounts of the KTC during the analyzed period. All lines on the diagram except shareholder's equity, which have steady increase trend, behave similarly — increasing from 2004 up to 2005, and decreasing from 2005 down to 2006.

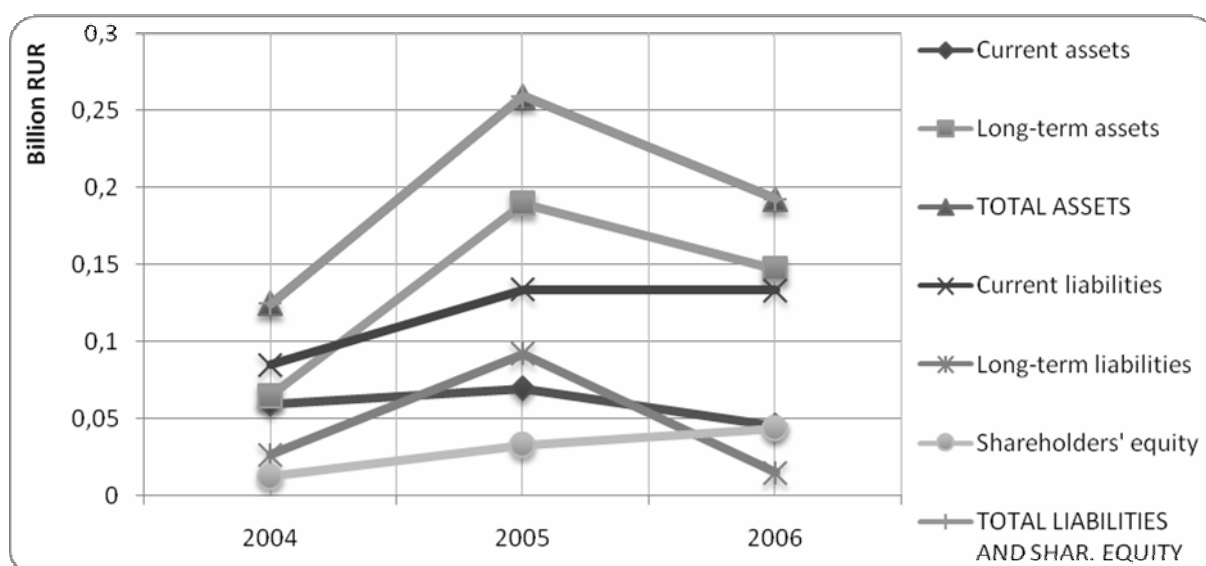


Figure 16. Changes of main balance sheet accounts of the KTC for 2004-2006.

Comparison sums of receivables and payables both at the beginning and at the end of the analyzed period shows significant exceeding of debt accounts over receivables. This means that in 2006 activities of the company's were partially financed from overdue liabilities.

### 4.3. Analysis of profit changes

Analyzing of changes in the accounting reports includes studying not only balance sheets, but also other important sources of financial information - income statements. For this paragraph, Russian income statements were transformed into reports similar to the IFRS statements. However, such transformation is just visual and all accounts were retained as in original statements. In other words, they are based on exactly the same financial data created according to the Russian accounting standards and only presented differently. I leave readers possibility to compare income statements from this paragraph with original reports in Appendix 1-8.

Another important issue to mention here is the possibility of correct interpretation of financial statements analysis results. Unfortunately, it is not easy to analyze Russian income statements. Due to their "tax nature", these financial reports give just rough picture of what really happened with a company's incomes and losses during a period. They do not answer why these changes occurred. Only studying of internal financial accounts, records and business documents may clarify alterations of such factors as prices, sold quantities, tax specifications, and interest rates etc. – all that can explain changes of main income statement articles. An external analyst does not usually have access to these documents and external analysis of income statements complements other methods of research. Hence, conclusions made on public financial statements just attract certain level of attention to potential problems.

However, the above-mentioned does not absolutely mean that Russian income statements "hide" more information than provide. They can be used for estimation of absolute ( $\Delta$ ) and relative (%) changes of its main accounts. Studying of these changes reveals consequences for the companies and shows trends of business development.

#### 4.3.1. Financial results of the APPM at the end of 2006

According to Table 18, net sales of the APPM for the analyzed period increased from 9.8 billion RUR to 11 billion RUR (+11.8 %). At the same time, costs of sales changed from 7.6 billion RUR to 8.2 billion RUR (+7 %). Specific weight of costs in net sales reduced from 77.7 % to 74.3 %. Total amount of gross profit increased in 2006 by 29.2 %.

Table 18: Income statement analysis of the APPM (thousand RUR)

	2004	2005	Δ2005	%	2006	Δ2006	%
<b>NET SALES</b>	8412334	9810351	1398017	116,62	10971393	1161042	111,83
Cost of sales	(6730178)	(7625469)	895291	113,30	8148094	522625	106,85
in % of Net Sales	80,00	77,73	- 2,27	97,16	74,27	- 3,46	95,55
<b>GROSS PROFIT</b>	1682156	2184882	502726	129,89	2823299	638417	129,22
General expenses	692100	1009083	316983	145,80	804534	-204549	79,73
Other operating revenues	1941511	70157	-1871354	3,61	46137	-24020	65,76
Other operating expenses	1972203	496244	-1475959	25,16	496210	-34	99,99
<b>OPERATING PROFIT</b>	959364	749712	-209652	78,15	1568692	818980	209,24
Income from investments	1237	296	-941	23,93	1812	1516	612,16
Interest expense	125098	200042	74944	159,91	298348	98306	149,14
Other non-operating revenues	144096		-144096	-		0	
Other non-operating expenses	337177		-337177	-		0	
<b>PROFIT BEFORE TAX</b>	642422	549966	-92456	85,61	1272156	722190	231,32
Tax expense	170296	251951	81655	147,95	367139	115188	145,72
<b>NET PROFIT</b>	472126	298015	-174111	63,12	905017	607002	303,68

Comparison of sales and costs change rates in 2006 indicates efficiency growth of main operations. The base for this statement is significant increase in operating profit from 748 million RUR to 1.6 billion RUR or by 109 %. Sums of tax expense increased at the end of the period by 45.7 % that may be connected with growth of profit before tax on 722.2 million RUR or by 131 %. At the end of the analyzed period, the APPM gained net profit at the level of 905 million RUR (increase by 203.7 % in comparison with previous year). This means that own capital of the company was formed from financial and economic activities. In the structure of incomes, the greatest share was provided by profit from main operational activity that signifies normal commercial strategy of the company. Fig.17 represents trends of all main income statement accounts of the APPM in the analyzed period. This diagram shows certain level of expansion in main activities of the company due to the positive tendency of net sales and costs of sales.

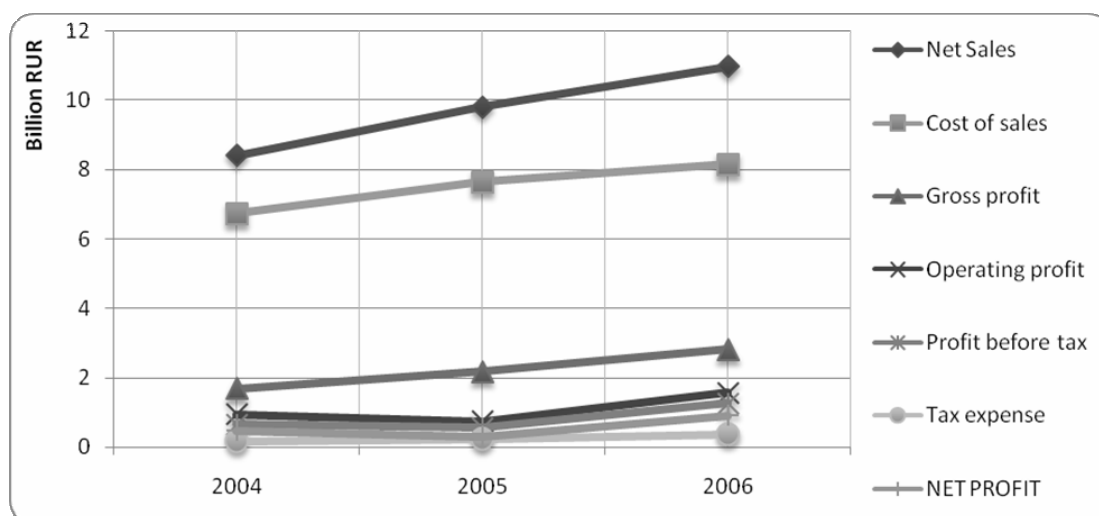


Figure 17. Changes of main income statement accounts of the APPM for 2004-2006.

#### 4.3.2. Financial results of the MBP SY at the end of 2006

During the analyzed period, sums of net sales increased from 14.6 billion RUR to almost 18 billion RUR or by 23.2 % (as shown in Table 19). Sales costs changed from 9.7 billion RUR to 12.4 billion RUR or by 28 %. The percent of costs in total sales increased for the period from 66.6 % to 69.2 %. Evaluation of change rates of sales and costs in absolute figures shows decrease of efficiency of main operations of the MBP SY at the end of the period.

Table 19. Income statement analysis of the MBP SY (thousand RUR)

	2004	2005	Δ2005	%	2006	Δ2006	%
<b>NET SALES</b>	13810328	14572144	761816	105,52	17950100	3377956	123,18
<b>Cost of sales</b>	9348132	9698186	350054	103,74	12424158	2725972	128,11
<b>in % of Net Sales</b>	67,69	66,55	- 1,14	98,32	69,21	2,66	104,00
<b>GROSS PROFIT</b>	4462196	4873958	411762	109,23	5525942	651984	113,38
<b>General expenses</b>	2171897	2475081	303184	113,96	2646695	171614	106,93
<b>Other operating revenues</b>	210391	2934083	2723692	1 394,59	2381796	-552287	81,18
<b>Other operating expenses</b>	193315	3580564	3387249	1 852,19	3527577	-52987	98,52
<b>OPERATING PROFIT</b>	2307375	1752396	-554979	75,95	1733466	-18930	98,92
<b>Income from investments</b>	23888	2726	-21162	11,41	2132	-594	78,21
<b>Interest expense</b>	77734	128226	50492	164,95	171184	42958	133,50
<b>Other non-operating revenues</b>	279470		-279470	-		0	
<b>Other non-operating expenses</b>	571129		-571129	-		0	
<b>PROFIT BEFORE TAX</b>	1961870	1626896	-334974	82,93	1564414	-62482	96,16
<b>Tax expense</b>	545374	597637	52263	109,58	592563	-5074	99,15
<b>NET PROFIT</b>	1416496	1029259	-387237	72,66	971851	-57408	94,42

Operating profit decreased in the analyzed period from 1.8 billion RUR to 1.7 billion RUR or by 1.1 %. Income from investment activities decreased from 2.7 million RUR to 2.1 million RUR or by 22 %. The MBP SY's investment operations at the end of the analyzed period were unprofitable. At the end of 2006, the company gained net profit equal to 972 million RUR, which had steady downward tendency. Hence, internal sources of financing main operations gained from financial and economic activities decreased in 2006. In addition, income taxes decreased by 1 %. In the structure of incomes at the end of 2006, the greater part was formed by profit from main business operations. As shown in Fig.18, the MBP SY had increasing tendencies for net sales, cost of sales and gross profit. It is an interesting observation that the company has relatively low tax burden. This is also true for other Russian forest product companies analyzed in the thesis.

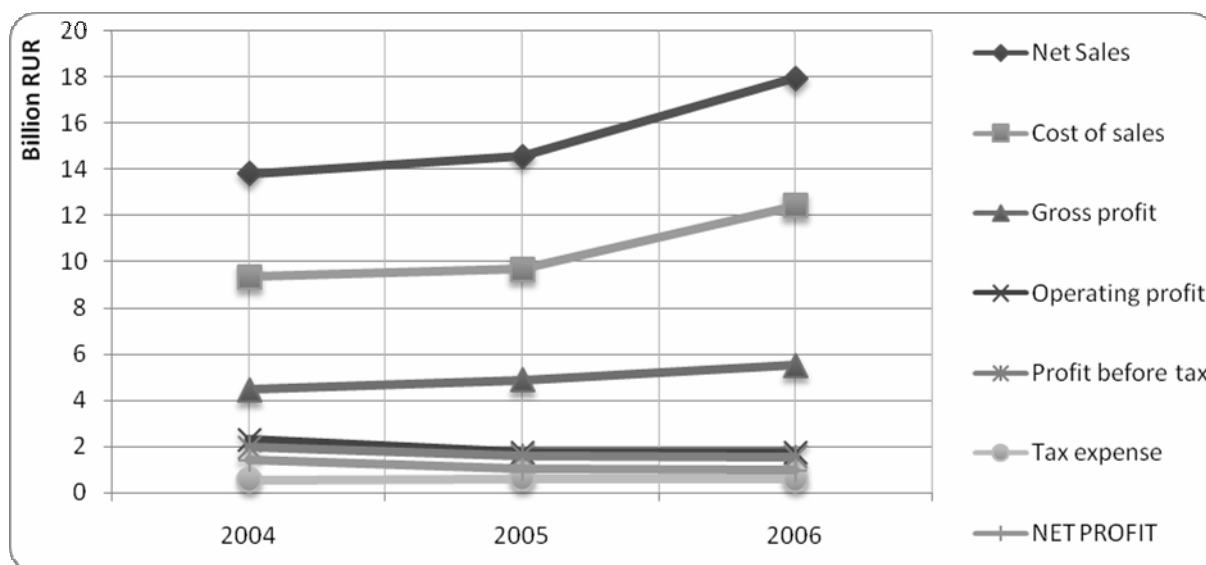


Figure 18. Changes of main income statement accounts of the MBP SY for 2004-2006.

#### 4.3.3. Financial results of the PCP at the end of 2006

Net sales of the company increased in the analyzed period from 843.2 million RUR to 1.03 billion RUR or by 21.8 % (Table 20). Costs of sales changed from 908.5 million RUR to 977.1 million RUR or by 7.6 %. Costs of sales were exceeding net sales by 7.6 % in 2005 and this caused financial losses for the year. At the end of 2006, specific weight of costs in net sales increased substantially with 95.1 %. However, comparison of absolute figures of income and costs shows moderate increase of business efficiency of the company.

Table 20. Income statement analysis of the PCP (thousand RUR)

	2004	2005	Δ2005	%	2006	Δ2006	%
<b>NET SALES</b>	820817	843180	22363	102,72	1027269	184089	121,83
Cost of sales	789194	908473	119279	115,11	977119	68646	107,56
in % of Net Sales	96,15	107,74	11,60	112,06	95,12	-12,63	88,28
<b>GROSS PROFIT</b>	31623	-65293	-96916	-206,47	50150	115443	-76,81
General expenses	12385	16832	4447	135,91	13372	-3460	79,44
Other operating revenues	1987	13689	11702	688,93	11578	-2111	84,58
Other operating expenses	22481	47117	24636	209,59	34245	-12872	72,68
<b>OPERATING PROFIT</b>	-1256	-115553	-114297	9 200,08	14111	129664	-12,21
Income from investments	208	82	-126	39,42	97	15	118,29
Interest expense			0		8415	8415	
Other non-operating revenues	6653		-6653	-		0	
Other non-operating expenses	7217		-7217	-		0	
<b>PROFIT BEFORE TAX</b>	-1612	-115471	-113859	7 163,21	5793	121264	-5,02
Tax expense	3367	-32146	-35513	- 954,74	4006	36152	-12,46
<b>NET PROFIT</b>	-4979	-83325	-78346	1 673,53	1787	85112	-2,14

Operating profit increased in the analyzed period from negative 115.5 million RUR to positive 14.1 million RUR or by 112.2 %. This might be because of increased productivity of main operations of the company. The PCP's investment activities were profitable at the end of the analyzed period with increase by 18.3 % after decrease in previous year. In the structure of income, the greater part was formed by profit from main operations that indicate normal commercial activities. At the end of 2006, the PCP gained net profit equal to 1.8 million RUR. It is important that in 2006 the company recovered after previous unprofitable years. However, its management has to pay more attention to production costs. According to Fig.19, high sales costs did not allow the company to gain profit.

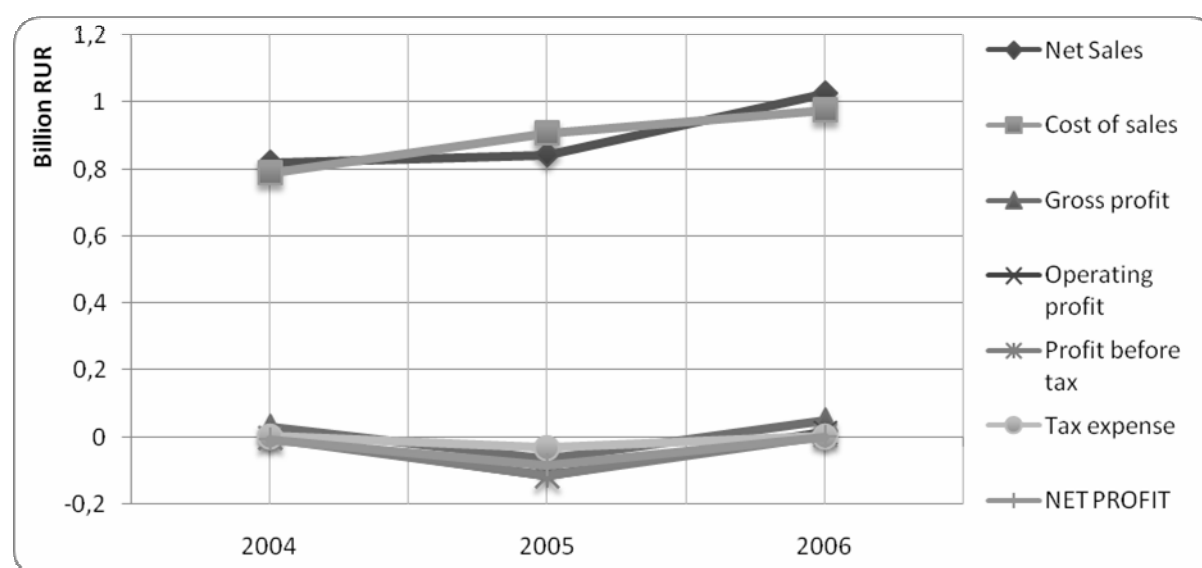


Figure 19. Changes of main income statement accounts of the PCP for 2004-2006.

#### 4.3.4. Financial results of the SPPM at the end of 2006

As shown in Table 21, net sales of the SPPM in 2006 increased from 5.3 billion RUR to 6.2 billion RUR or by 16.2 %. This increase is evaluated positively. Total amount of costs changed from 4.6 billion RUR to 5.5 billion RUR or with negative 19.5 %. Specific weight of costs in total amount of net sales increased from 86.3 % to 88.8 %. This figure is substantial. Comparison of income and costs change rates in absolute figures is showing decreased efficiency of main activities of the company in 2006.

Table 21. Income statement analysis of the SPPM (thousand RUR)

	2004	2005	Δ2005	%	2006	Δ2006	%
<b>NET SALES</b>	4091711	5318346	1226635	129,98	6177849	859503	116,16
Cost of sales	3548309	4587860	1039551	129,30	5484346	896486	119,54
in % of Net Sales	86,72	86,26	- 0,45	99,48	88,77	2,51	102,91
<b>GROSS PROFIT</b>	543402	730486	187084	134,43	693503	-36983	94,94
General expenses	369092	426119	57027	115,45	519599	93480	121,94
Other operating revenues	2140112	3019314	879202	141,08	5547041	2527727	183,72
Other operating expenses	2402533	2994047	591514	124,62	4337008	1342961	144,85
<b>OPERATING PROFIT</b>	-88111	329634	417745	-374,11	1383937	1054303	419,84
Income from investments	1135	5650	4515	497,80	6749	1099	119,45
Interest expense		228917	228917		405658	176741	177,21
Other non-operating revenues	552133		-552133	-		0	
Other non-operating expenses	784432		-784432	-		0	
<b>PROFIT BEFORE TAX</b>	-319275	106367	425642	- 33,32	985028	878661	926,07
Tax expense	-54042	-1485	52557	2,75	-65470	-63985	4 408,75
<b>NET PROFIT</b>	-265233	107852	373085	-40,66	1050498	942646	974,02

Operating profit increased in the analyzed period from 329.6 million RUR to 1.4 billion RUR or by 320 %. Fig.20 confirms this. The considerable growth of operating profit confirms increase of productivity of operational activities of the company. The company is recovering from losses of previous years. Therefore, tax payments at the end of the period were negative, that most likely is connected with restoration of the company's solvency by a crisis management. Investment activities of the company during the period were profitable. The last unprofitable financial year for the SPPM was 2004. At the end of 2006, the company gained net profit equal to 1.1 billion RUR denoted by positive increase tendency. At the end of the period, in the structure of incomes the greater part belonged to profit from main activities. This indicates normal commercial operation of the company.

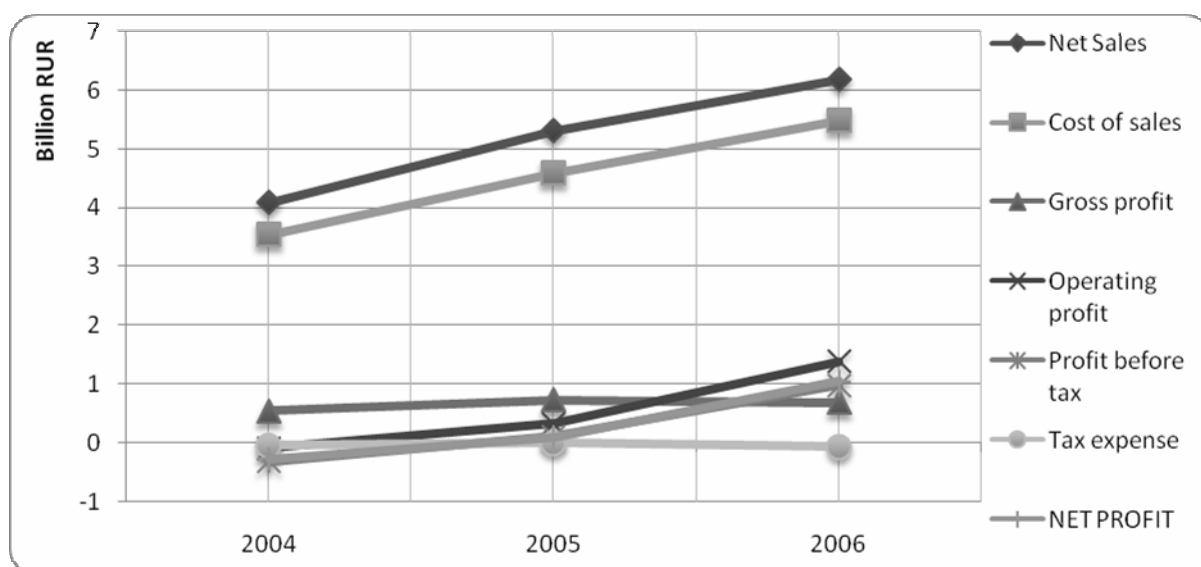


Figure 20. Changes of main income statement accounts of the SPPM for 2004-2006.



#### 4.3.5. Financial results of the SWPM at the end of 2006

Net sales of the SWPM increased in 2006 from 578.8 million RUR to 608 million RUR or by 5 % (Table 22). This growth was kept starting from 2004. In 2005, net sales also increased in comparison with previous year. Realization costs changed from 443.3 million RUR to 501 million RUR or by positive 13 %. Specific weight of costs in total amount of sales increased from 76.6 % to 82.4 %. Comparison of sales and costs rates in absolute figures shows efficiency decrease of main operations.

Table 22. Income statement analysis of the SWPM (thousand RUR)

	2004	2005	Δ2005	%	2006	Δ2006	%
<b>NET SALES</b>	532401	578799	46398	108,71	607862	29063	105,02
Cost of sales	366119	443306	77187	121,08	500901	57595	112,99
in % of Net Sales	68,77	76,59	7,82	111,38	82,40	5,81	107,59
<b>GROSS PROFIT</b>	166282	135493	-30789	81,48	106961	-28532	78,94
General expenses	117397	112528	-4869	95,85	75637	-36891	67,22
Other operating revenues	4125	17282	13157	418,96	794868	777586	4 599,40
Other operating expenses	11705	35651	23946	304,58	802921	767270	2 252,17
<b>OPERATING PROFIT</b>	41305	4596	-36709	11,13	23271	18675	506,33
Income from investments			0			0	
Interest expense			0		21756	21756	
Other non-operating revenues	3494		-3494	-		0	
Other non-operating expenses	15121		-15121	-		0	
<b>PROFIT BEFORE TAX</b>	29678	4596	-25082	15,49	1515	-3081	32,96
Tax expense	6638	1258	-5380	18,95	1392	134	110,65
<b>NET PROFIT</b>	23040	3338	-19702	14,49	123	-3215	3,68

Operating profit of the company increased significantly in the analyzed period from 4.6 million RUR to 23.3 million RUR or by 406 % (fig.21). It obviously denotes increase of main operations productivity for the company. During the analyzed period, the SWPM had no investment activities. At the end of 2006, the company gained net profit equal to 123 thousand RUR with preserving its decreasing tendency in comparison with previous years. In the structure of incomes, the larger part was formed by profit from main operations.

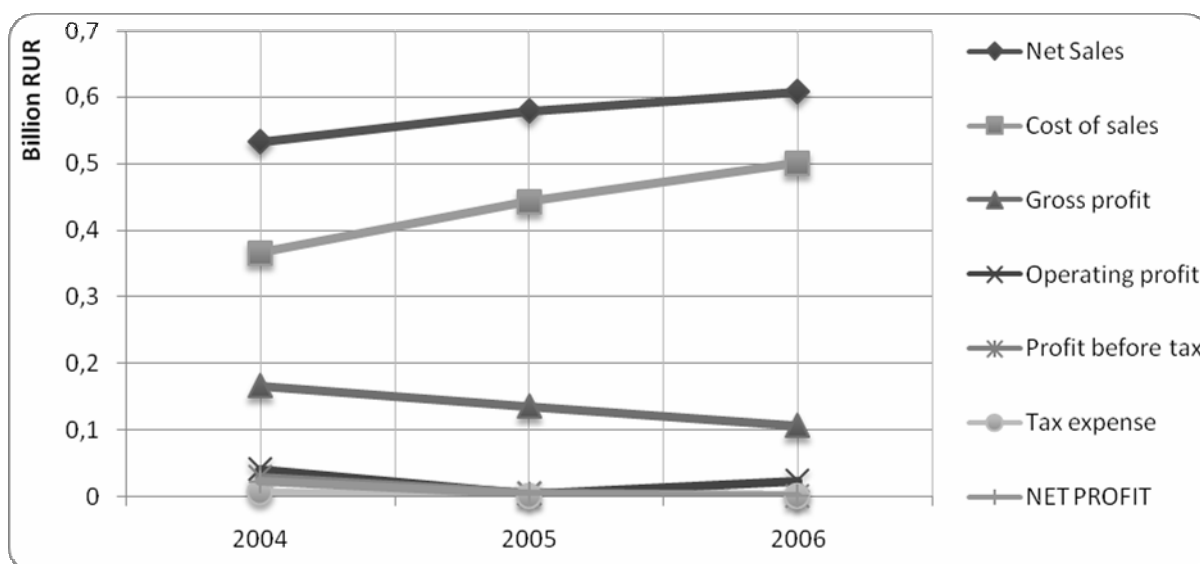


Figure 21. Changes of main income statement accounts of the SWPM for 2004-2006.

#### 4.3.6. Financial results of the KTC at the end of 2006

Net sales of the KTC for the analyzed period decreased from 135.7 million RUR to 121 million RUR or by 10.8 % (Table 23). Costs of sales changed from 157.3 million RUR to 152 million RUR or by 3.5 %. Specific weight of sales cost in the total amount of sales increased from 116 % to 125.5 %. Comparison of change rates of absolute figures of income and costs denotes efficiency decrease of main activities of the KTC in 2006. For the analyzed period, the company had only losses. However, operational loss decreased in 2006 from 40.7 million RUR to 26.8 million RUR or by 34 % that should be considered as a good sign for possible recovery.

Table 23. Income statement analysis of the KTC (thousand RUR)

	2004	2005	Δ2005	%	2006	Δ2006	%
<b>NET SALES</b>	152944	135659	-17285	88,70	121035	-14624	89,22
<b>Cost of sales</b>	139106	157315	18209	113,09	151885	-5430	96,55
<b>in % of Net Sales</b>	90,95	115,96	25,01	127,50	125,49	9,52	108,21
<b>GROSS PROFIT</b>	13838	-21656	-35494	-156,50	-30850	-9194	142,45
<b>General expenses</b>	16156	18514	2358	114,60	16955	-1559	91,58
<b>Other operating revenues</b>	2439	7041	4602	288,68	68283	61242	969,79
<b>Other operating expenses</b>	1901	7577	5676	398,58	47290	39713	624,13
<b>OPERATING PROFIT</b>	-1780	-40706	-38926	2 286,85	-26812	13894	65,87
<b>Income from investments</b>		5	5		1	-4	20,00
<b>Interest expense</b>			0			0	
<b>Other non-operating revenues</b>	513		-513	-		0	
<b>Other non-operating expenses</b>	3154		-3154	-		0	
<b>PROFIT BEFORE TAX</b>	-4421	-40701	-36280	920,63	-26811	13890	65,87
<b>Tax expense</b>	270	-9910	-10180	-3 670,37	-11965	-2055	120,74
<b>NET PROFIT</b>	-4691	-30791	-26100	656,38	-14846	15945	48,22

The KTC's financial and investment activities were absent in its income statement or had insignificant values during the period. At the end of 2006, the company had total loss equal to 14.8 million RUR which, however, had decrease tendency that means improvement and possible recovery in the future. However, decreasing net sales for the analyzed period (that is shown in Fig.22) does not allow making such far-reaching conclusions.

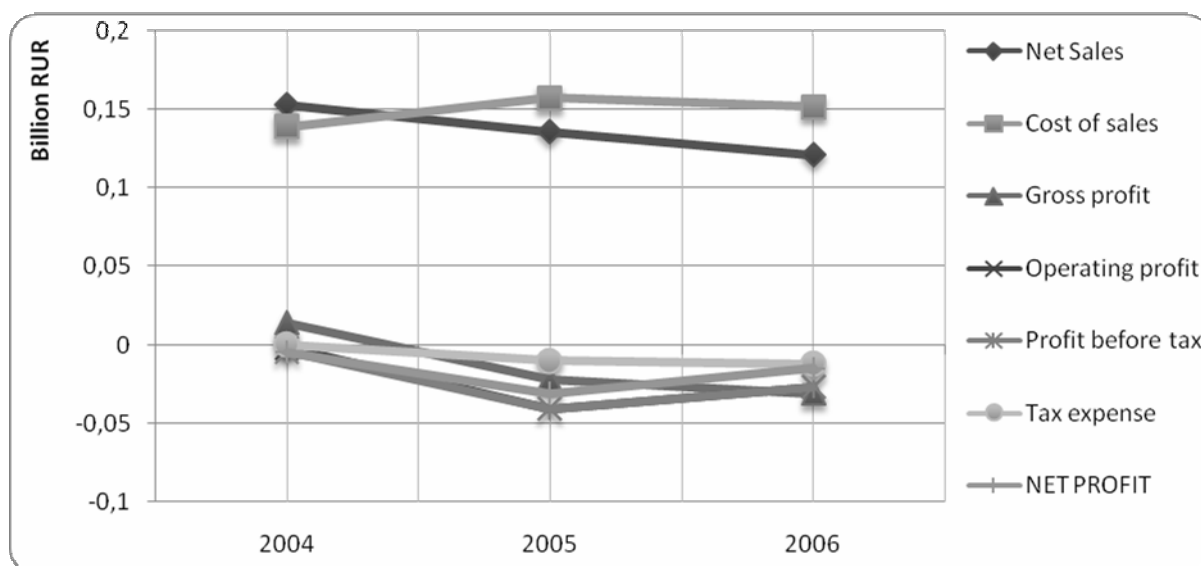


Figure 22. Changes of main income statement accounts of the KTC for 2004-2006.

#### 4.4. Balance sheet and liquidity

The next iteration of analysis is so-called “balance sheet liquidity”. Based on technique defined in paragraph 2.4.3, this method includes grouping of balance sheet accounts into categories. In order to illustrate it, the following calculations were made (Table 24). It shows financial liquidity levels based on balance sheets of the analyzed companies. This table is also known as “analytical liquidity balance”.

Table 24. Financial liquidity based on balance sheet data (in thousand RUR)

INDICATOR	APPM			MBP SY			PCP		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
A1	52487	49417	78313	212720	105905	48429	3843	21346	12130
A2	1538971	1297844	1087021	2142515	2182355	2555114	133522	143366	107547
A3	781058	1029458	1021879	1777479	2199352	2153432	130716	120944	134863
A4	4594788	5844286	6499881	8506543	9379556	9742769	842025	862070	822120
L1	929078	939569	721602	1233850	1282190	1280032	56845	95917	79334
L2	616209	574706	390794	1665995	2427797	1206291	15080	97926	53058
L3	1253748	2279460	2385899	209844	1008867	2992220	11761	17326	27842
L4	4168269	4427270	5188799	9529568	9148314	9021201	1026420	936032	916426
A1>=L1	NO	NO	NO	NO	NO	NO	NO	NO	NO
A2>=L2	YES	YES	YES	YES	NO	YES	YES	YES	YES
A3>=L3	NO	NO	NO	YES	YES	NO	YES	YES	YES
A4<=L4	NO	NO	NO	YES	NO	NO	YES	YES	YES
ABSOLUTE LIQUIDITY	NO	NO	NO	NO*	NO	NO	NO*	NO*	NO*

INDICATOR	SPPM			SWPM			KTC		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
A1	1856152	290592	291314	14162	89899	44898	3133	283	461
A2	1414399	1405798	1546885	53465	147638	195780	24353	49945	30684
A3	673476	856226	841231	75403	40197	67195	32139	19618	14628
A4	3909193	4510123	9141893	126865	122809	243699	65001	189573	147059
L1	2318755	863914	2114126	28825	116403	78002	67607	88396	105470
L2	1404383	1780222	2455498	1879	66648	73060	1	5002	27143
L3	2177508	2345139	4125057	123850	98569	282084	44209	132235	15117
L4	1952574	2073464	3126642	115341	118923	118426	12809	33786	45102
A1>=L1	NO	NO	NO	NO	NO	NO	NO	NO	NO
A2>=L2	YES	NO	NO	YES	YES	YES	YES	YES	YES
A3>=L3	NO	NO	NO	NO	NO	NO	NO	NO	NO
A4<=L4	NO	NO	NO	NO	NO	NO	NO	NO	NO
ABSOLUTE LIQUIDITY	NO	NO	NO	NO	NO	NO	NO	NO	NO

As it shown in table, none of the six studied forest products company had absolute liquidity when combination of inequalities should be equal to “Yes-Yes-Yes-Yes”. For all studied forest product companies, the most easily convertible assets (money resources and securities) did not cover the most accrued liabilities. The inequality "A1>=L1" were not fulfilled for any of companies. Only the PCP (and the MBP SY in 2004) had better situation with the balance sheet liquidity when only "L1" liabilities had no “immediate coverage” by "A1" assets. Therefore, such situation may not be treated as negative because of the "A2>=L2" inequality that was fulfilled all years. That is why there is an (\*) mark in resulting cells. Thus, the liquidity of the balance sheet of the PCP is acknowledged as relatively good.

The "A2>=L2" inequality is very important indicator for liquidity analysis, because it represents normal or so to say “everyday operational liquidity” for Russian companies. Not so many companies in Russian forestry are willing to have large sums of high-liquid assets (money and financial instruments) on their accounts. It is common that companies prefer to have only "A2" assets to cover both "L1" and "L2" in case of financial emergency. All six companies except the MBP SY in 2005 and the SPPM (both in the 2005 and 2006), had positive "A2>=L2" inequality. It is a good sign that shows satisfactory liquidity for these





companies. The most common combination of inequalities in table is “No-Yes-No-No”. This situation is negative and for the companies it literally means the following:

- It was not enough most-liquid assets to cover most accrued liabilities;
- It was enough liquid assets to cover short-term financial liabilities like loans;
- Ability to pay off long-term credits was limited and that indicates low investment capabilities;
- Main operating capital was formed from borrowed sources and risks of operating and financial failures were high.

The SPPM had poor balance sheet liquidity in 2005 and 2006. Combination of “No-No-No-No” often means that company is near to its bankruptcy or has serious problems with bills repayment ability. If this assumption is true, ratio analysis will undoubtedly reveal it.

#### 4.5. Ratio analysis

This part of the thesis contains ratios calculated and presented as described in paragraphs 2.4 and 4.1. All ratios were arranged in tables to make them easier to understand. Two summary tables, each including three companies (as in Table 25 and Table 26) were created for this purpose. In addition, all ratios were patterned to make easier evaluation of critical, negative, satisfactory and good values. It is now possible to explain methodology of this approach. Without a doubt, the method of results visualization is intended first for the readers to keep their attention on important findings. Four patterns were used for evaluation and presentation of the ratio analysis results:

-  Green **chequered pattern** is defined as “good”. This pattern was applied, if a ratio could be definitely evaluated as positive. For example, normal value for the Absolute Liquidity Ratio belongs to an interval (0.2— 0.5). If a ratio “fits” there, then it is marked by the chequered pattern. It was also used if a ratio was higher than any similar ratios in its group - this is according to comparability assumption of financial analysis;
-  Yellow **horizontal lines** were used for pattern “satisfactory” ratios. A ratio with this pattern slightly or “acceptably” deviates from its normal value or from higher value in a row. A ratio was also marked by the horizontal lines if its value being normal according to the theory was satisfactory for particular company;
-  Red **diagonal lines** mean “bad” values. This pattern is intended for drawing attention to something. This is also a warning signal for unusual situation. If a ratio was marked by it, this meant that its value was far from both normal and satisfactory values and the company was experiencing certain difficulties in its activities;
-  It is the last used pattern. **Flat grey** is associated with “critically low” value. For example, if a ratio that has normal value, belonging to an interval (1-2) has negative sign; it is the reason to pattern it grey. A ratio with worst value in its group was also marked flat gray.

Another application of the pattern method concerns turnover ratios for example the “Accounts Receivable” turnover (measured by times) and the “Average Collection period” (measured by days). The general rule for turnovers is “the faster, the better”. Hence, a ratio valued shorter than 30 days (or 1 month) was marked by the chequered pattern. Turnover ratios less or equal to quarter were patterned horizontally. Ratios valued longer than 90 days were marked by the diagonal lines. This approach was applied automatically to all ratios measured by times,

because they are inversely related with turnovers. For example, horizontally-patterned ratio “Days in Receivables” equal to 60 days, at the same time means 6 times for the “Accounts Receivable” turnover ( $360 \text{ days}/60 = 6$ ) that will be patterned horizontally as well.

Table 25. Ratio Analysis of the APPM, the MBP SY and the PCP in 2004-2006

	APPM			MBP SY			PCP		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
<b>Liquidity Ratios</b>									
Absolute liquidity ratio (AL)	0,071	0,032	0,044	0,073	0,047	0,024	0,197	0,095	0,102
Quick ratio (Acid test ratio)	0,652	0,499	0,480	0,503	0,375	0,442	0,794	0,313	0,288
Current ratio (CR)	1,564	1,481	1,570	1,478	1,275	1,457	4,652	2,079	1,653
Net working capital (NWC)	783908	771273,5	828836	1370031	930536,5	1449989	198110,5	143722	106717,5
Net working capital to Sales (NWC/S), %	9,319	7,862	7,555	9,920	6,386	8,078	24,136	17,045	10,388
<b>Profitability Ratios</b>									
Gross profit margin (GPM), %	19,996	22,271	25,733	32,311	33,447	30,785	3,853	-7,744	4,882
Operating profit margin (OPM), %	11,404	7,642	14,298	16,708	12,026	9,657	-0,153	-13,704	1,374
Net profit margin (NPM), %	5,612	3,038	8,249	10,257	7,063	5,414	-0,607	-9,882	0,174
Return on assets (ROA), %	7,428	3,924	10,705	11,341	7,766	6,852	-0,455	-7,381	0,161
Return on fixed assets (ROFA), %	11,291	5,710	14,663	17,156	11,509	10,165	-0,591	-9,779	0,212
Return on current assets (ROCA), %	21,715	12,550	39,660	33,461	23,880	21,025	-0,739	-30,096	0,662
Earnings before interest and taxes (EBIT)	767520	750008	1570504	2039604	1755122	1735598	-1612	-115471	14208
Return on assets before interest & taxes (ROABIT), %	12,076	9,876	18,577	16,330	13,243	12,237	-0,147	-10,228	1,277
Return on sales (ROS), %	9,1237	7,6451	14,3145	14,7687	12,0444	9,6690	-0,196	-13,695	1,383
Return on equity (ROE), %	11,773	7,030	19,319	14,971	11,025	10,700	-0,482	-8,492	0,193
Return on capital employed (ROCE), %	14,192	11,409	21,143	20,963	17,520	14,458	-0,155	-12,112	1,505
<b>Activity Ratios</b>									
Inventory turnover (IT), times	9,025	11,258	12,570	6,312	5,794	6,837	10,774	12,343	12,944
Average collection period (ACP), days	53,924	52,773	39,670	59,292	54,164	48,166	51,232	59,930	44,576
Total assets turnover (TAT), times	1,324	1,292	1,298	1,106	1,100	1,266	0,749	0,747	0,924
Fixed assets turnover (FAT), times	2,012	1,880	1,778	1,673	1,629	1,877	0,974	0,990	1,220
Accounts payable turnover (APT), times	8,014	8,160	9,806	7,486	7,685	9,661	16,894	11,853	11,118
Accounts receivable turnover (ART), times	6,769	6,916	9,201	6,156	6,739	7,578	7,124	6,090	8,188
Days in receivables (DR), days	57,077	56,821	41,887	65,658	55,618	53,169	54,089	60,736	48,963
Days in inventory (DI), days	42,714	34,442	30,000	65,320	64,156	59,963	35,254	31,649	29,225
Days in payables (DP), days	48,103	47,522	38,454	55,075	48,369	42,437	22,482	32,957	34,026
Net working capital turnover (NWCT), times	10,731	12,720	13,237	10,080	15,660	12,379	4,143	5,867	9,626
<b>Leverage Ratios</b>									
Financial leverage (FL)	0,631	0,558	0,554	0,758	0,704	0,640	0,942	0,869	0,833
Debt ratio (D/A)	0,369	0,442	0,446	0,242	0,296	0,360	0,058	0,131	0,167
Debt to equity ratio (D/E)	0,585	0,791	0,805	0,320	0,420	0,562	0,061	0,151	0,201
Long-term debt to total assets (LTD/TA)	0,150	0,231	0,274	0,013	0,041	0,136	0,008	0,013	0,020
Long-term debt to fixed assets (LTD/FA)	0,228	0,336	0,375	0,020	0,060	0,202	0,010	0,017	0,027
Equity multiplier (EM)	1,585	1,791	1,805	1,320	1,420	1,562	1,061	1,151	1,201
Gearing ratio (GR), %	19,24	29,24	33,09	1,71	5,44	17,51	0,85	1,46	2,38
Times interest-covered ratio (TICR)	6,135	3,749	5,264	26,238	13,688	10,139	-	-	1,688

Table 25 contains calculated ratios of the APPM, MBP SY and the PCP and it is complemented with next table that includes rest of the calculated ratios. Financial ratios of other Russian forest product companies are grouped in Table 26 below.

Table 26. Ratio Analysis of the SPPM, the SWPM and the KTC in 2004-2006

	SPPM			SWPM			KTC		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
<b>Liquidity Ratios</b>									
Absolute liquidity ratio (AL)	0,640	0,334	0,080	0,103	0,487	0,403	0,025	0,016	0,003
Quick ratio (Acid test ratio)	0,898	0,637	0,453	0,676	0,999	0,907	0,114	0,149	0,116
Current ratio (CR)	1,399	1,011	0,718	1,837	1,968	1,753	0,769	0,591	0,432
Net working capital (NWC)	1051682	34170	-1029421	66771,5	103504,5	125747	-15795,5	-44833	-75917,5
Net working capital to Sales (NWC/S), %	25,7027	0,6425	-16,6631	12,543	17,8826	20,687	-10,328	-33,048	-62,724
<b>Profitability Ratios</b>									
Gross profit margin (GPM), %	13,281	13,735	11,226	31,232	23,409	17,596	9,048	-15,964	-25,488
Operating profit margin (OPM), %	-2,153	6,198	22,402	7,758	0,794	3,828	-1,164	-30,006	-22,152
Net profit margin (NPM), %	-6,482	2,028	17,004	4,328	0,577	0,020	-3,067	-22,697	-12,266
Return on assets (ROA), %	-3,967	1,446	11,126	8,508	0,996	0,026	-4,629	-16,035	-6,565
Return on fixed assets (ROFA), %	-8,841	2,562	15,390	18,546	2,674	0,067	-9,637	-24,190	-8,820
Return on current assets (ROCA), %	-7,196	3,320	40,156	15,721	1,587	0,042	-8,907	-47,564	-25,681
Earnings before interest and taxes (EBIT)	-319275	335284	1390686	29678	4596	23271	-4421	-40701	-26811
Return on assets before interest & taxes (ROABIT), %	-4,775	4,496	14,729	10,960	1,371	4,888	-4,362	-21,196	-11,857
Return on sales (ROS), %	-7,8030	6,3043	22,5108	5,574	0,794	3,828	-2,891	-30,002	-22,151
Return on equity (ROE), %	-12,852	5,440	41,011	22,002	2,850	0,104	-30,955	-134,078	-38,447
Return on capital employed (ROCE), %	-7,775	7,652	19,284	12,408	2,113	5,810	-11,239	-32,412	-45,270
<b>Activity Ratios</b>									
Inventory turnover (IT), times	5,183	6,100	6,658	8,990	11,211	10,352	6,472	8,097	9,262
Average collection period (ACP), days	116,622	96,776	87,225	44,825	63,409	103,105	48,138	99,952	121,575
Total assets turnover (TAT), times	0,612	0,713	0,654	1,966	1,727	1,277	1,509	0,706	0,535
Fixed assets turnover (FAT), times	1,364	1,263	0,905	4,286	4,636	3,317	3,142	1,066	0,719
Accounts payable turnover (APT), times	2,374	2,871	3,675	7,557	6,105	5,153	2,667	2,017	1,567
Accounts receivable turnover (ART), times	3,130	3,772	4,185	8,143	5,756	3,540	7,582	3,652	3,002
Days in receivables (DR), days	117,083	109,391	93,747	49,905	66,057	105,630	47,288	93,966	114,649
Days in inventory (DI), days	71,196	67,479	59,702	45,153	35,663	37,409	55,300	47,846	38,716
Days in payables (DP), days	155,421	143,356	108,152	53,711	65,489	75,151	134,181	192,095	228,852
Net working capital turnover (NWCT), times	3,891	155,644	-	7,973	5,592	4,834	-9,683	-3,026	-1,594
<b>Leverage Ratios</b>									
Financial leverage (FL)	0,309	0,266	0,271	0,387	0,349	0,249	0,150	0,120	0,171
Debt ratio (D/A)	0,691	0,734	0,729	0,613	0,651	0,751	0,850	0,880	0,829
Debt to equity ratio (D/E)	2,240	2,762	2,686	1,586	1,862	3,011	5,687	7,362	4,856
Long-term debt to total assets (LTD/TA)	0,297	0,303	0,343	0,319	0,332	0,400	0,175	0,310	0,238
Long-term debt to fixed assets (LTD/FA)	0,663	0,537	0,474	0,695	0,891	1,039	0,364	0,467	0,320
Equity multiplier (EM)	3,240	3,762	3,686	2,586	2,862	4,011	6,687	8,362	5,856
Gearing ratio (GR), %	49,06	53,28	55,81	45,17	48,70	61,59	53,91	72,15	58,21
Times interest-covered ratio (TICR)	-	1,465	3,428	-	-	1,070	-	-	-

Patterns just give an overview of the ratios. As it was mentioned earlier, ratios itself do not provide enough information without correct explanation. Therefore, ratio evaluation is the subject of next paragraphs (4.5.2 – Assessment of financial performance). It is also a good idea to specify which forest product company has better results over the others. Hence, next logical step is to define a company-leader and a worst performer among the group of six companies (4.5.1 Statistical comparison of the ratio analysis results). It is essential for results comparison. Afterwards, it will be easier to compare studied companies with industry average ratios.

#### 4.5.1. Statistical comparison of the ratio analysis results

The method described in part 2.4.8 allows rating each ratio in the group and calculating company ratings to get a final score. From the whole range of calculated ratios, only fourteen were taken, because they are usually considered as most important for estimation of financial performance. In addition, two non-ratio values were added: “Net sales” and “Net Profit” (from income statements). The choice for representative group is based on assumption of normal statistical distribution. Statistical rating calculated for each company is shown in Table 27.

Table 27. Statistical rating of companies based on results of ratio analysis

RATIOS	APPM	MBP SY	PCP	SPPM	SWPM	KTC
	Rating	Rating	Rating	Rating	Rating	Rating
NET SALES (NS)	0,778	1,791	-0,787	-0,015	-0,845	-0,922
NET PROFIT (NP)	0,606	1,834	-0,901	0,153	-0,816	-0,876
ABSOLUTE LIQUIDITY (AL)	-0,718	-0,674	-0,397	0,757	1,888	-0,857
QUICK RATIO (QR)	-0,019	-0,312	-0,558	0,159	1,993	-1,263
CURRENT RATIO (CR)	-0,014	-0,213	1,091	-0,9	1,424	-1,388
NET PROFIT MARGIN (NPM)	0,724	0,907	-0,549	0,764	0,093	-1,939
RETURN ON EQUITY (ROE)	0,588	0,542	0,05	0,663	0,346	-2,19
RETURN ON FIXED ASSETS (ROFA)	0,877	1,064	-0,696	0,31	0,297	-1,852
RETURN ON CURRENT ASSETS (ROCA)	1,027	1,007	-0,799	0,543	-0,047	-1,731
TOTAL ASSETS TURNOVER (TAT)	0,686	0,368	-0,676	-1,209	1,667	-0,835
FIXED ASSETS TURNOVER (FAT)	0,005	-0,088	-0,731	-0,753	2,137	-0,571
FINANCIAL LEVERAGE (FL)	0,358	0,842	1,54	-0,832	-0,581	-1,327
DEBT RATIO (D/A)	0,358	0,842	1,54	-0,832	-0,581	-1,327
DEBT TO EQUITY RATIO (D/E)	0,635	0,775	0,911	-0,285	-0,016	-2,021
LONG-TERM DEBT TO TOTAL ASSETS (LTD/TA)	-0,162	1,071	1,521	-0,756	-1,358	-0,316
LONG-TERM DEBT TO FIXED ASSETS (LTD/FA)	0,179	0,908	1,198	-0,403	-1,883	0,0005
AVERAGE COMPANY RATING	0,355568	0,651057	0,120413	-0,174732	0,259756	-1,212062

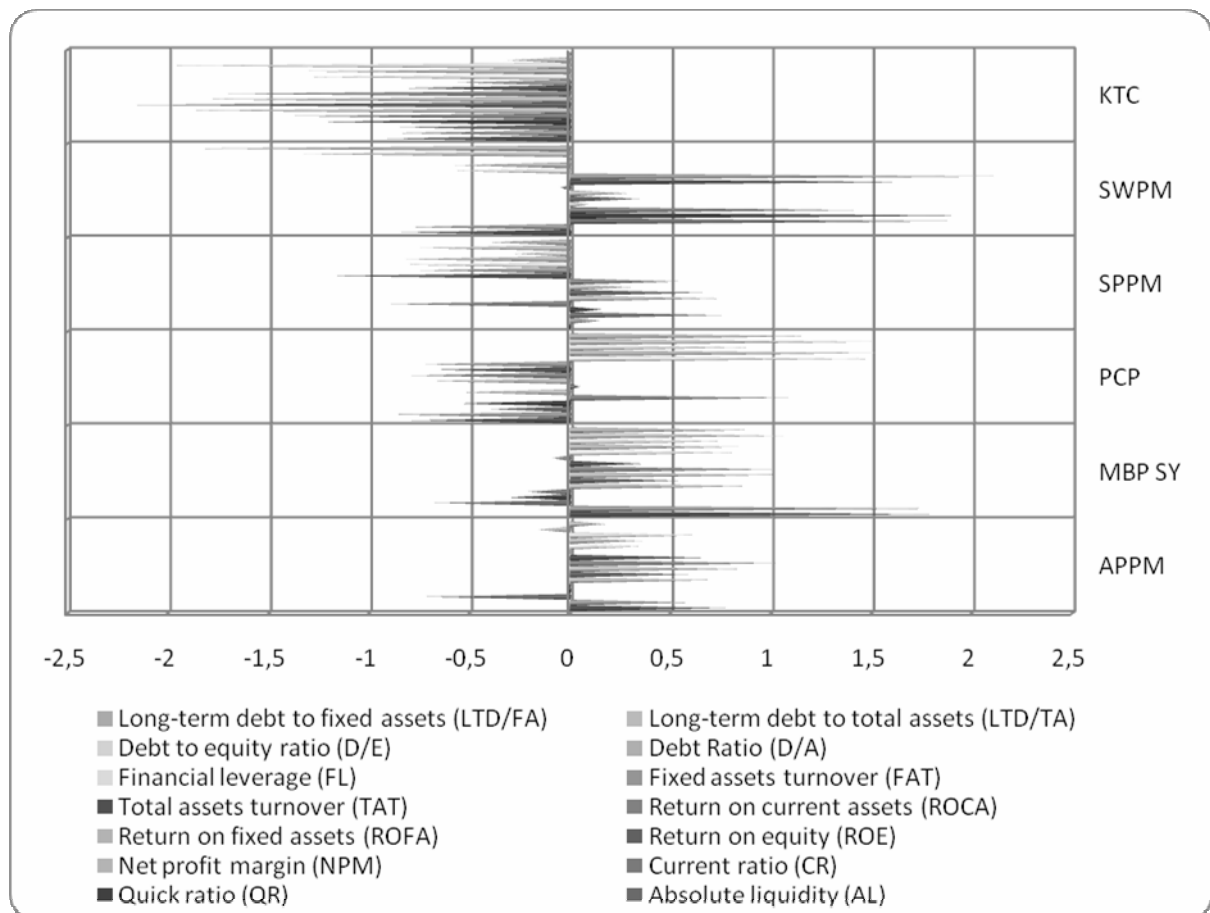


Figure 23. Histogram of the most important ratio ratings of the companies.

To help visualize results of the statistical analysis, all important individual ratio ratings found in Table 27 were presented as histogram shown in fig.23. There are no ratio values in Table 27 and Fig.23 but only ratio weights (or individual and company ratings). According to the company ratings, calculated as averages from individual ratio ratings, the MBP SY has leading position with the score 0.65. The APPM is on the second place with 0.355. The third place has the SWPM, fourth and fifth - PCP and SPPM respectively. The KTC ranks last in the total group of six studied Russian forest product producers. Next step in ratio analysis is to explain the results.

#### 4.5.2. *Assessment of financial performance*

As it was already mentioned, ratios help to evaluate financial strengths and weaknesses of a company and its business trends. It will be explained further why ratios have different pattern schemes and why ratios marked by red diagonal lines have negative meaning; why satisfactory values have horizontal patterns and what are the consequences of critical ratios for a business. It is most likely, that some of the studied forest product companies with prevalence of critically valued ratios will go through analysis of a possible bankruptcy.

##### 4.5.2.1 Financial liquidity

Calculated liquidity ratios confirm results obtained with balance sheet liquidity method shown in paragraph 4.4. Only two studied companies - the SPPM and the SWPM had normal values of the **absolute liquidity ratio** (not every year, though - see Table 26 in "Liquidity ratios"). Two leaders - the MBP SY and the APPM together with the KTC, had bad or even critical values of this ratio. However, according to Russian business practices, such situation does not always mean that companies are near to their bankruptcy. Absolute liquidity value is associated with monetary assets available for covering immediate liabilities. Russian companies in many industries prefer not to keep excessive amounts of money on their own accounts using this asset in operational turnover. It is also common that companies often delay payments of own debts until their very deadlines. There is no exception for the Russian forest industry. With prevailing of small companies operating in this developing sector of the national economy, all liquid assets or their excesses (if there are any) are normally used in the operating cycle. Other ("less liquid") financial assets usually cover all immediate debts.

Many experts agree that the **quick ratio** is the most informative measure of financial liquidity for Russian companies. With its normal value internationally accepted as "1", in Russia it is normally belong to the interval 0.7-0.8 (according to experts). This ratio is similar to the absolute liquidity ratio and includes financial instruments besides cash and cash equivalents. All studied companies except the KTC, had good or satisfactory values of this ratio in the analyzed period (Table 25 and Table 26). No forest products company managed to reach normal value of this ratio equal to one. The most probable reason for that was refusal from investing the capital into financial assets. Instead, studied forest product companies preferred expansion of their main operations. Although, some companies with good quick ratio values during the analyzed period (especially the SWPM) most probably have been creating a "financial cushion" for settlement of their future liabilities.

**Current ratio** characterizes solvency of a company in backing of immediate obligations and is used in this thesis as main criterion for defining financial stability. Two leading companies (the MBP SY and the APPM) had value of this indicator equal to approximately 1.4-1.5. This means that in case of a force-majeure, current assets of these companies were able to cover all



obligations immediately and even leave 50 percent of the current assets. This is an excellent example of stable financial position. The PCP's current ratio in 2004 accounted as 4.652 was valued as satisfactory (horizontal lines). This figure is definitely higher than normal value (it does not mean that it is exactly better) meaning that the company had irrational policy of managing its current assets. Current ratio of the SPPM had negative tendency to decrease. The KTC experienced major issues with liquidity of its assets during the analyzed period. All three correspondent liquidity ratios show downward tendency (Fig.24). It points out difficulties in production and problems connected with organization of supply chain. Negative tendency of the KTC's current ratio reduced probability of covering current obligations at the expense of inventories, completed goods, money assets, debt receivables and other current assets. This company requires application of analysis of a potential bankruptcy.

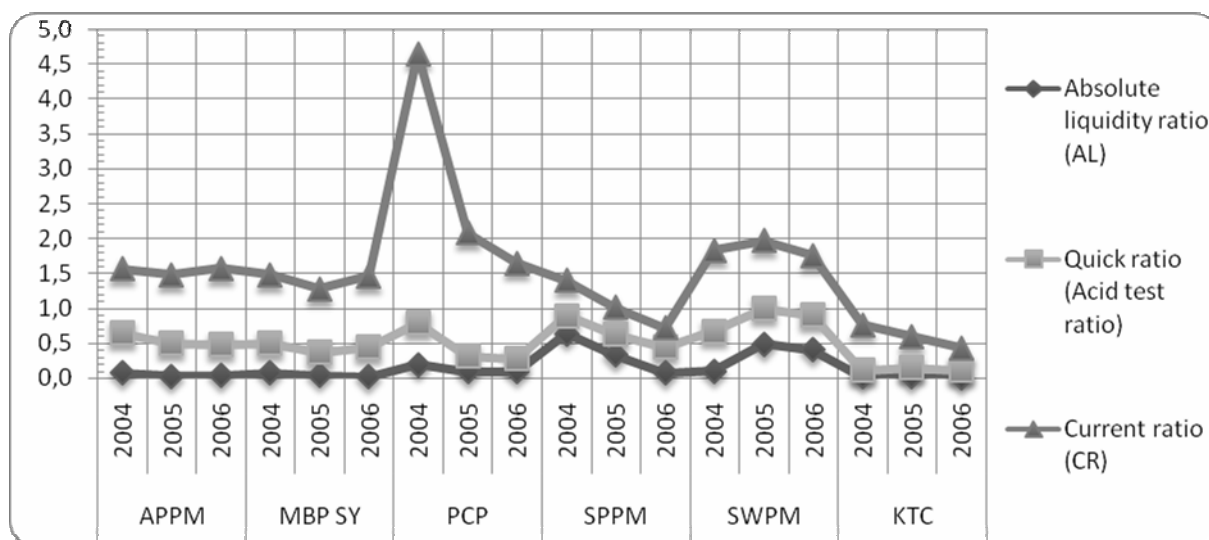


Figure 24. Liquidity ratios of the studied Russian forest product companies.

**Net working capital (NWC)** characterizes amount of capital in a company's turnover. This indicator is free from current obligations. In other words, it consists of current assets financed from long-term sources, which will not be used for debt settlement but only for financing of current operations. If amount of the company's NWC is positive, it means basic possibility of settlement of any debts by means of current assets. Another important criterion for the NWC is steadiness of its changes. As it can be seen from Tables 25 and 26, net working capital of the APPM, MBP SY, SWPM and the PCP was higher than zero and sometimes had positive trend. Hence it is evaluated positively too from point of view of increased liquidity and solvency of the companies. Any potential creditor that observes similar trends will increase his confidence in these companies as credible borrowers of his money resources. The only two forest product companies had problems with the NWC during the analyzed period. They are the SPPM with decreased NWC and the KTC with negative figures of the NWC. For business, it means that these companies may run into trouble when trying to pay off their short term liabilities.

The **net working capital to sales (NWC/S)** ratio represents share of the most financially stable capital in total amount of net sales. The higher it is - the better for financial stability. This ratio is crucial for small and middle-sized companies. Segezha Mill had the highest value of the NWC/S ratio among studied businesses (25.7 % in 2004). Two leading companies (MBP SY and APPM) kept this ratio approximately equal to 6-9% during the analyzed period.

#### 4.5.2.2 Profitability

Profitability indicators allow giving performance evaluation of a company's management by study of how well they use corporate assets. An overall managerial performance is defined by parity of profit, identified in various ways, with assets used for earning this profit.

**Gross profit margin (GPM)** shows how much money is left in revenues after accounting for the cost of goods sold. During the analyzed period, only one company (MBP SY) had gross profit margin at the average equal to 31 % (fig.25). It is high value, especially for Russian forestry. Another leading company (APPM) had noticeable positive changes of this indicator (from 20 % to 25.7 %). Still, there is an opinion among Russian top-managers that 7-10 % of gross profit margin is acceptable in current economic conditions. It is also obvious, that negative GPM means absence of any profit for company. One forest product company (KTC) was unprofitable at the end of the analyzed period having negative 25.5 % of the gross profit margin in 2006.

**Operating profit margin (OPM)** is associated with proportion of the company's revenues that is left after paying for variable production costs such as wages, raw materials and so on. This value is closely connected with capability of the company's management to work efficiently while keeping production costs low. The highest value of this ratio had the SPPM (~22.4 % in 2006). Still, it was patterned horizontally as "satisfactory", because of the negative and bad values of this indicator in previous years. As it can be seen from Tables 25 and 26, operating profit margin for all studied Russian forest product companies was in most cases bad or acceptable. This result is most likely can be connected with high variable production costs.

**The net profit margin (NPM)** ratio tells how much profit the studied forest product companies made for every 1 RUR they generated in revenue. This is comparative indicator. However, differences in competitive strategy and product mix cause profit margin to vary among different companies. The PCP had the highest value of this ratio (17 %). It was marked by the chequered pattern as "good" considering its trend too. All ratios that were rated red and grey mean that correspondent companies were unprofitable or their profit constituted insignificant amount (for example, net profit equalled to 0.02 % is fairly low for large company in the forest industry – as the SWPM in 2006).

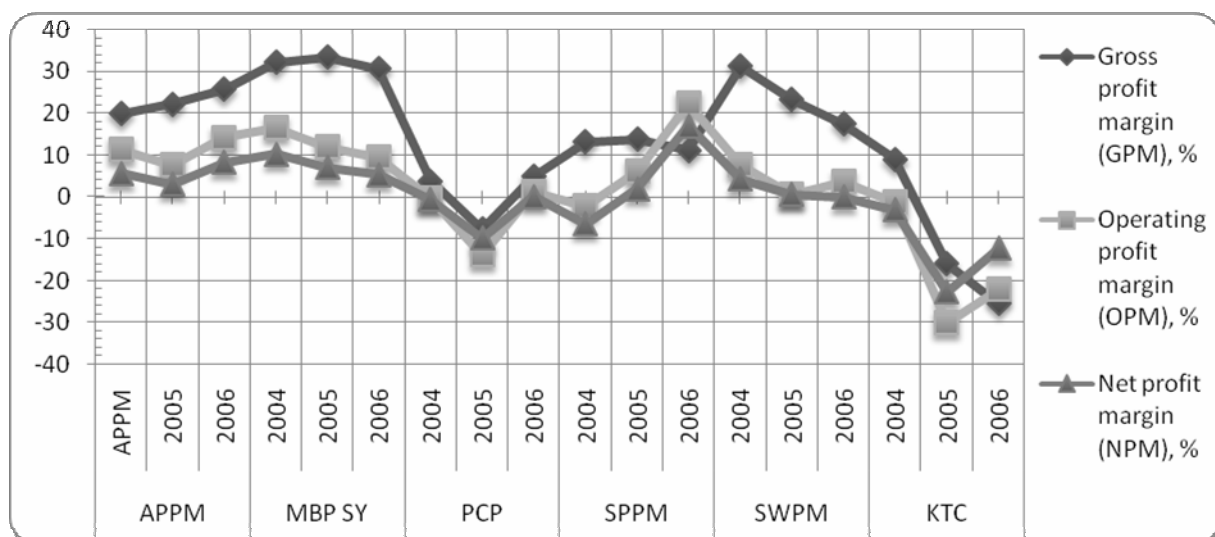


Figure 25. GPM, OPM and NPM for the analyzed period.

**Return on assets (ROA)** and complimentary ratios **Return on fixed assets (ROFA)** and **Return on current assets (ROCA)** are the most important profitability indicators in the thesis. They show how effectively has been used each monetary unit involved in the business cycle i.e. how a company's assets were allocated for earning its profit.. The ROA ratio is logically connected with net profit margin and assets turnover.

In 2004, the MBP SY had maximum ROA equal to 11.3 %. However, this is very low figure for industrial company (taking into account decreasing trend of this indicator), which shows that only 11 % of the company's profit were generated from the capital invested. The MBP SY and the APPM had differently directed trends of the ROA and its values were extremely low (max. ROA of the APPM was 10.7 % in 2006). Other forest product companies had negative values of this ratio: the PCP in 2004-2005; the SPPM in 2004 and the KTC in 2005-2006. The SWPM's ROA decreased from 8.5 % to 0.01 % during the analyzed period. Main cause for that were financial losses of these companies.

For an industrial company, normal value of the ROFA should not be lower than 25 percent. The highest value of the ROFA (18.5 %) had the SWPM in 2006 (Fig.26). However, for the next two years the company lost this advantage. It was much unexpected having two leading companies (APPM and the MBP SY) among those companies that have bad or satisfactory ROFA (as for example the KTC). One assumption that can be made about this is that the Russian forest companies do not use their fixed assets effectively because of old and obsolete technological equipment they have or ineffective management of this equipment. Unfortunately, this is hard to prove without using of internal accounting books for land, equipment and buildings amortization.

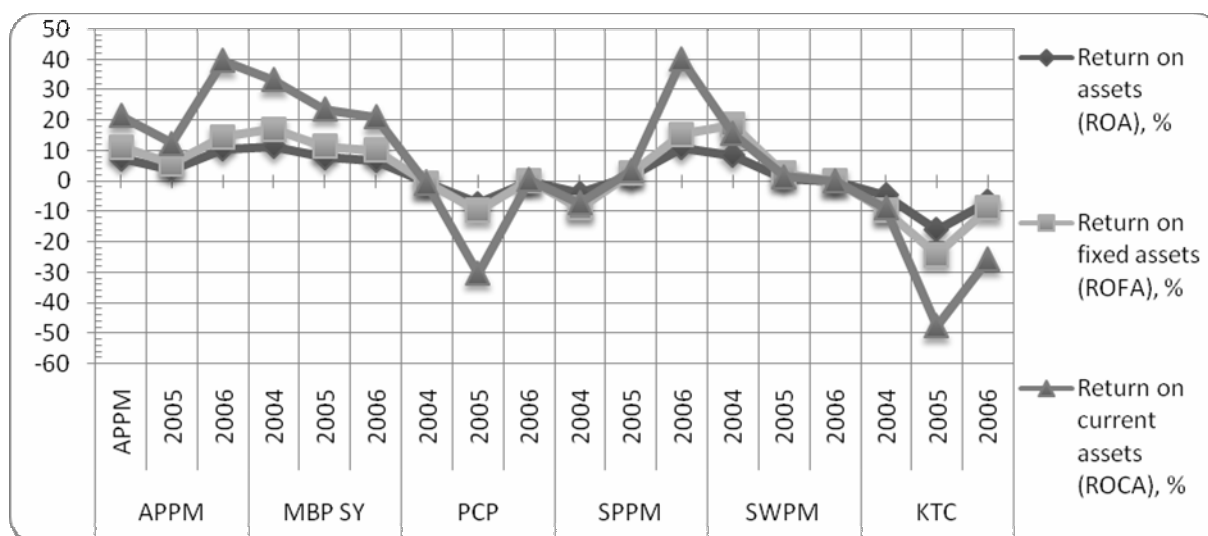


Figure 26. ROA, ROFA and ROCA for the analyzed period.

The highest values of the ROCA ratio had the APPM (39.7 %) and the SPPM (40.2 %) in 2006 (Fig.26). It is a good level of profitability of current assets and both companies had positive trend of this indicator.

**Earnings before interest and taxes (EBIT)** include all profits from operations, before interest and income taxes are deducted. Normally, non-operating profits and non-operating expenses are not included in the EBIT. It is virtually impossible to estimate the EBIT as “good” or “bad”, because studied forest product companies do not directly compete with each other and

the base for comparison is absent. Hence, presence of the EBIT was estimated positively (green chequered pattern). Two forest product companies (KTC and PCP) had no EBIT during the first two analyzed years. The SPPM had negative EBIT in 2004 but the company had good increase of this indicator at the end of the analyzed period.

**Return on assets before interest and taxes (ROABIT)** ratio is the most precise measure of a company's assets profitability. It corrects ROA ratio with significant occasional or nonrecurring income and expense items. Economic meaning of this ratio is similar to the ROA; however, calculated values are different. The MBP SY had stable decreasing trend for this ratio while the APPM had unstable increase. Financial losses that occurred with the PCP and the KTC did not allow these forest product companies to obtain good or satisfactory figures for the ROABIT ratio. It is interesting that the PCP lost its position in the total rating of studied companies because of its poor profitability ratios. The SPPM showed big improvements of its return ratios in 2006 over the previous years.

Modified **Return on sales (ROS)** ratio also uses the EBIT value. It shows how much profit was produced per 1 RUR of sales. Positive trend of this ratio may indicate business growth of a company. However, such growth had only two forest product companies in the thesis – the APPM and the SPPM. The MBP SY had negative tendency for this indicator at the end of 2006. However, this company obtained the higher value of the ROS ratio – 14.8 % in 2004.

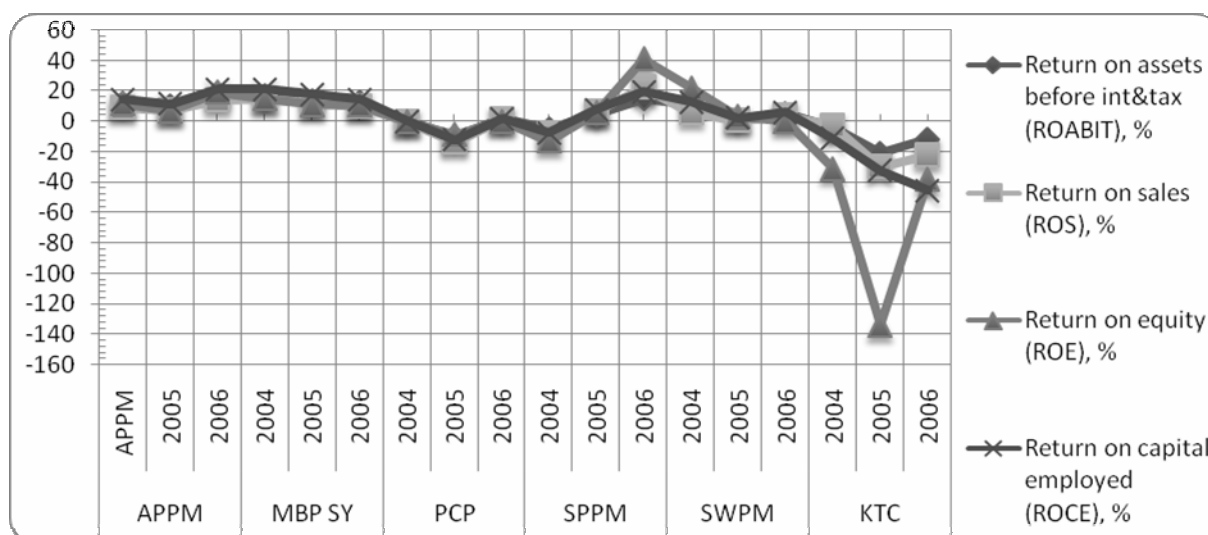


Figure 27. ROABIT, ROS, ROE and ROCE for the analyzed period.

**Return on equity (ROE)** defines effectiveness of using a company's own capital. It shows how much money per one RUR of shareholder's equity was earned during the analyzed period. Being the comparative indicator, there is no normal value for this ratio. Therefore, the comparison will be done twice: first within the studied group of forest product companies and second – with industry averages. Fig.27 provides visual representation of these ratios.

At the end of the analyzed period, the SPPM had ROE equal to 41 % that together with its positive trend provided maximum result in the group. Unfortunately, no other company could reach this level of their own capital profitability. However, the APPM had positive rate of increase of this indicator (from 11.8 % to 19.3 %). On the contrary, Table 25 shows that the MBP SY has been experiencing negative trend of this ratio during the analyzed period. The SWPM profitability results were close to critical with its ROE equal to 2.9 % and 0.1 % in

2005 and in 2006 respectively. There is one observation that can be made. For a properly functioning company, relation of non-negative ROE to positive ROA will be always higher than 1. This condition was fulfilled for many of the studied Russian forest product companies except for the KTC, the PCP in 2004-2005 and the SPPM in 2004.

Another important measure of profitability is the **Return on capital employed** ratio (ROCE). This indicator shows how much money in the EBIT has been generated by the Net working capital (i.e. by the most stable and financially independent sources of financing). Two leading companies showed good figures of this ratio. The SPPM demonstrated increase of the ROCE from negative 7.7 % to positive 19 % that have moved this company close to the top in the general rating. The KTC and the PCP accounted critical values of this indicator.

#### 4.5.2.3 Activity

Activity ratios measure a firm's ability to convert different accounts (current assets and current liabilities) found in their balance sheets (or in internal accounting books) into cash or sales. Companies will normally try to turn their production into cash or sales as fast as possible because this leads to higher revenues.

**Inventory turnover** (IT) is used for estimation of how fast a company's stock is sold and replaced over the period. There is no generally accepted figure for this ratio, but the main idea is to turn inventories as fast as possible. The studied Russian forest product companies demonstrated surprising integrity of this indicator. With average inventory turnover equalled to 8.9 times there was only one company that used its stock 5.2 times in year (the SPPM in 2004). Reasonable explanation is that these companies operate in the same industry and use the same raw materials. The **Days in inventory** (DI) ratio is the opposite indicator for the inventory turnover. It is measured in days. It shows how many days were needed for companies to convert their stocks into products. Fewer days in inventories are better and conclusions are the same as with the previous ratio.

The **Average collection period** (ACP) ratio measures average number of days that company's customers took to pay their bills, indicating effectiveness of credit and collection policies of the businesses. As it was mentioned earlier, the average collection period should not be exceeding 30 days. Acceptable value of this ratio for the Russian forest industry is equal to one quarter (120 days) even if it is substantially longer than thirty days. The reason for that includes many factors starting from poor performance of the industry and finishing by geographical specificity such as distances between business partners and their facilities. More than 120 days for this indicator may cause delays in receiving payments and considerably increases risk of financial failure. The studied forest product companies had so to say "typical Russian" average collection period accounted to 40-60 days. This is undoubtedly far from perfection, because every business needs money to pay off its own expenses. However, one studied company (the KTC) managed to have this ratio equal to 121.6 days. This figure shows ineffective way of dealing with company's customers.

**Accounts receivable turnover** (ART) is connected with the average collection period ratio within one-year business cycle. It shows how many times the studied companies collected their receivables during financial period. High average collection period means slow receivables turnover. For example, the KTC in 2006 had this ratio equal to 3 times. In other words, three times a year the company has been collecting its receivables. This is purely negative result. As an example, the APPM has been receiving its notes payable almost ten

times in 2006. This ratio is very close in economic sense to the **days in receivables (DR)** ratio, which differs only by calculation method. Fig.28 was made to show graphically the Average collection period ratio, the Days in Inventories, Days in receivables and in payables ratios. The main idea of this figure is “bad performing companies have high values of activity ratios that are measured in days”

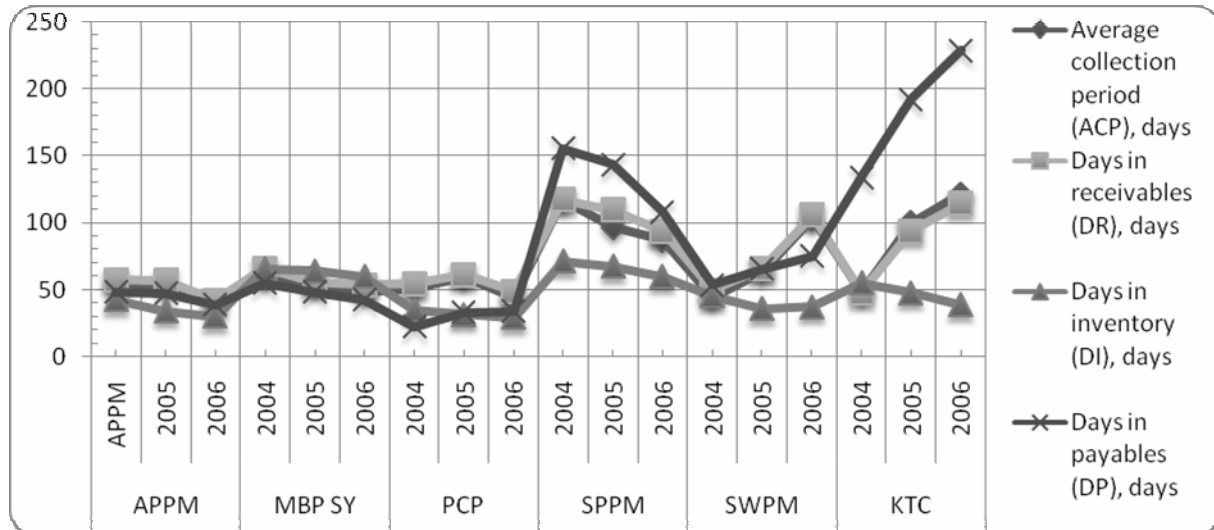


Figure 28. Activity turnovers (ACP, DR, DI and DP) of the studied companies.

The **accounts payable turnover (APC)** is short-term liquidity measure used to quantify rate at which the companies paid off their suppliers. Generally, the faster company pays to its partners, the higher financial liquidity it has. High turnover rate also indicates production development and possible business expansion. However, in Russian financial analysis practices there are certain problems with evaluation of this ratio. It is common that Russian companies delay payments to their suppliers from time to time. This is called commercial credit and in some extent, it is used for financing main operations of a debtor. Of course, this is purely negative practice. Among the studied forest product companies, only one had good values of the accounts payable turnover. It is the PCP, despite of the decreasing trend of this ratio (in 2004 - 17 times, in 2005 - 12 times). The APPM and the MBP SY had similar values around 8-9 times a year (fig.29). The SWPM kept value of this ratio on acceptable level. In 2006, the KTC paid to their business partners only twice. Value of the **days in payables (DP)** ratio for this company was equal to 190 days – delay of payments equal to half of the year (fig. 28). That is critically low for any businesses. It is required to mention here that external analysis of assets and liabilities turnovers has approximate nature and can be substituted by studying of accounts and books. For figures that are more precise it is necessary using of managerial accounting data if possible.

The **Total assets turnover (TAT)** measures company's operating efficiency by estimation of its assets use in generating sales or revenues - the higher it is the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. This ratio differs from industry to industry. The MBP SY, APPM and SWPM had value of this ratio exceeding "1" in 2006. This means that total assets of these companies completed more than one full business cycle and created amount of sales listed in their income statements during that year. It is questionable of course, how positively for a company to have the total assets turnover higher than 1.2 times. Further comparison with industry averages will reveal it. The SPPM showed steady changes

with satisfactory values. The PCP at the end of 2006 had value of the total assets turnover accounted as 0.9 that almost reached leading companies. The forest management unit - the KTC at the end of the analyzed period had TAT equal to 0.5 times.

The **fixed assets turnover ratio (FAT)** is similar to the previous indicator. It is narrower measure and determines effectiveness of sales generated by investments in fixed assets. It does not include current assets. This ratio is most likely to be useful in such capital-intensive industry as forestry. The base for comparison of this indicator is ratios of other forest product companies. Results of the fixed assets turnover for studied companies are in the same proportion as the total assets turnover. It is necessary to point out that these indicators are also approximate because fixed assets shown in Russian balance sheets are acquired during various periods and shown with historical costs. Book value of fixed assets has often nothing to do with their real value, thus such divergence is usually aggravating during inflation and evaluation of these assets.

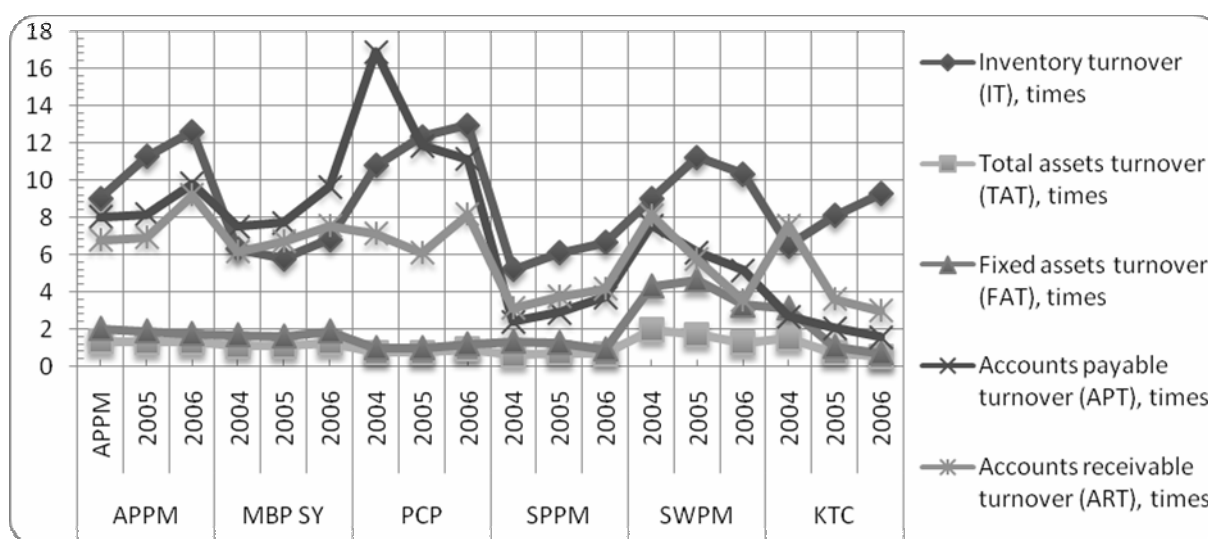


Figure 29. Activity turnovers (IT, TAT, FAT, APT and ART) of the studied companies.

The **net working capital turnover (NWCT)** helps to determine whether business is unstable in managing fixed or capital assets. High value of this ratio is required; however, its trend should be steady (very high net capital turnover has negative influence on a business). The SPPM had the highest figure of this ratio in 2005. The company had no NWCT next year, while in 2004 it was on a critical level. Such situation points out to overtrading and indicates requiring of additional funds to support financial structure of the business. Other studied companies, except the KTC, had good values of this indicator during the analyzed period.

#### 4.5.2.4 Leverage

Leverage indicators have mission to show degree of possible risk of business collapse in connection with use of borrowed financial resources. Indeed, if a company does not use loan proceeds the risk of bankruptcy is insignificant. This group of financial ratios is interesting for existing and potential creditors of the studied forest product companies.

The **financial leverage (FL)** ratio characterizes company's dependencies from loans and borrowings. The lower this ratio, the higher is risk of potential insolvency for the companies. Only two studied companies (PCP and the MBP SY) can be defined financially stable for the

analyzed period according to their financial leverage ratios. The Arkhangelsk Mill is characterized by satisfactory values of this indicator with decreasing trend for the period. Financial leverage ratios of the SPPM and SWPM were on poor level (about 0.3-0.4 at the average).

The **debt ratio** (D/A) shows share of company's assets that is financed at the expense of loan proceeds, irrespective of their sources. Some financial experts commend keeping this indicator at the lowest level. During the analyzed period, only PCP along with the MBP SY had good values of this ratio (less than 30-35 %) that were marked by green in Table 25. The APPM, however, was near to these two companies with its 36-44 % of borrowed funds in its assets. Other companies had critical values of this indicator as, for example, the SWPM with its 75 % of borrowed capital.

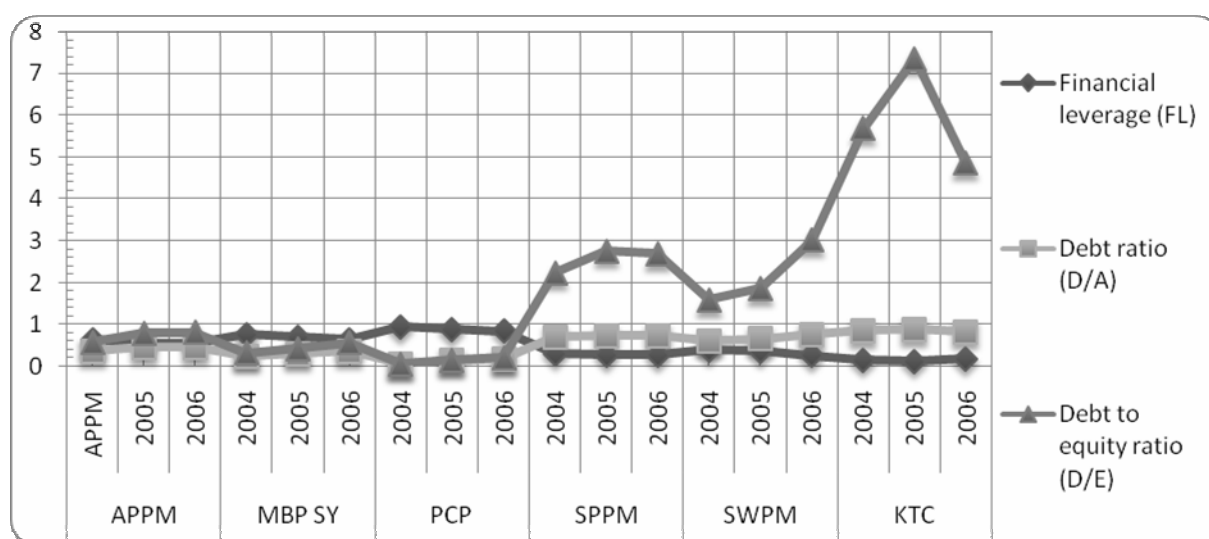


Figure 30. Financial leverage, Debt ratio and Debt to Equity ratio.

The **debt to equity** (D/E) ratio shows the company's dependence on external financing. Higher value of this ratio means higher risk of insolvency. Importance of this ratio also reflects potential threat of deficiency of money resources. Interpretation of this indicator depends on many factors such as average debt to equity in other industries, company access to additional debt sources of financing etc. However, the recommended value for Russia belongs to interval (0.5 - 0.8). During the analyzed period, two leading companies (APPM and MBP SY) had value of this indicator on a good level (Table 25). However, the true leader with this ratio was the PCP with its 6-20 percent of debts in its total shareholder's equity value. On the contrary, the KTC with its critically low values of this ratio (up to 7.4 in 2005 that means the shareholder's equity was 7.4 times lower than total debts – Fig.30) shows a good example of company that presumes on borrowed funds in its operations.

The **Long-term debt to total assets** (LTD/TA) and **long-term debt to fixed assets** (LTD/FA) ratios represent share of assets (total or fixed) that were financed by long-term borrowings. Importance of these ratios is of primary interest of any potential creditor of the companies. Not all studied forest product companies had good values of these indicators. However, it concerns mostly the LTD/FA ratio. For example, the KTC had high values (which are negative) of this indicator during the entire analyzed period.



The **equity multiplier ratio** (EM) is in inverse relation to financial leverage ratio and shows percentage of total assets per 1 RUR of shareholders' equity. High equity multiplier indicates higher financial leverage, which means that company is relying more on debts in financing its total assets. During the analyzed period the KTC had high (and, hence, negative) values of this ratio. The PCP with its good values of the EM shows that its administration was able to retain the company secure relative to any debt obligations during the analyzed period.

The **times interest-covered ratio** is a measure for estimation a company's abilities to meet its debt obligations and indicates how many times their interest charges can be covered on pre-tax basis. Only one company in the thesis (MBP SY) was able to cover its obligations more times than any of the studied Russian forest product companies.

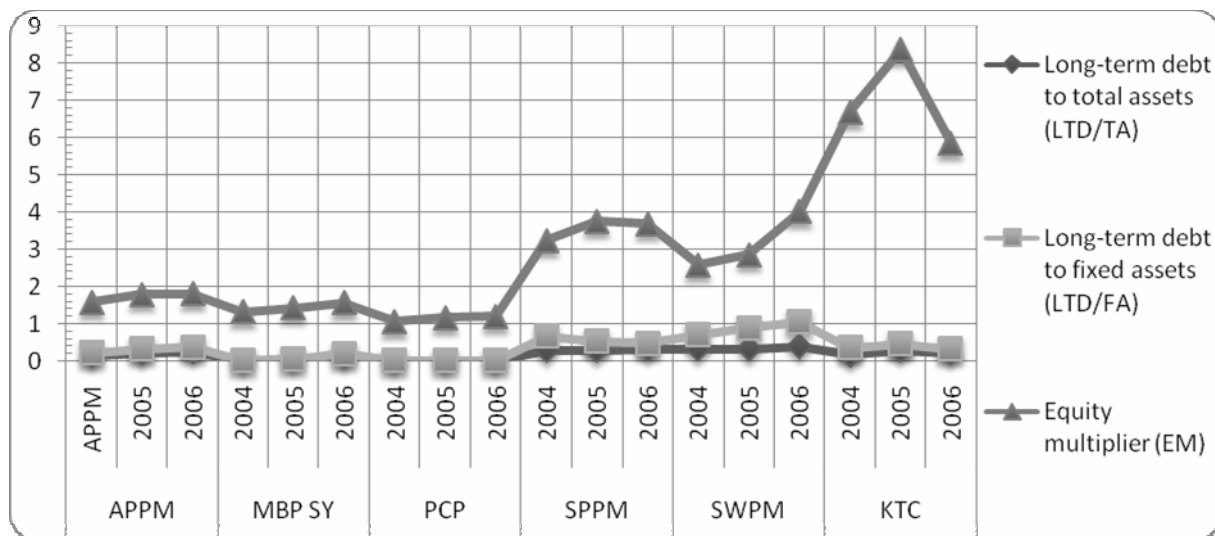


Figure 31. Long-term debt to total and fixed assets and Equity multiplier ratios.

The last calculated indicator in this group of leverage ratios is the **gearing ratio** (GR). Gearing is a measure of financial leverage, demonstrating degree to which a firm's activities are funded by owner's funds versus creditor's funds. The higher degree of leverage, the more the company is considered risky. As for the ratio, acceptable level was determined through comparison with companies in the same industry. Judging by this assessment, the most risky forest product companies in the thesis are the SPPM, the SWPM and the KTC. The APPM for the period had relatively high values of the gearing ratio. The MBP SY's gearing ratio changed from 1.7 to negative 17.5 at the end of 2006. Possible reason why the PCP shows very good figures of financial leverage is that the company's development policy does not include any long-term financial funding of its assets that makes it financially dependent. On the other hand, good leverage ratios may indicate absence of investments.

#### 4.6 Possibility of a bankruptcy

This last but one method of financial analysis used in the thesis consists of application of two well-known models of prediction of a possible bankruptcy. According to the paragraph 2.4.9, they are the Altman's model and the Fulmer's model. Each model has its own strengths and weaknesses and they most likely complement each other in the thesis rather than being used separately as they claimed to be the best ones.

#### 4.6.1 *The Altman's model*

Table 28 shows calculations of the Altman's Z-Values of studied Russian forest product companies for the analyzed period. The table utilizes the same patterns that were used for the ratio analysis.

Table 28. *The Altman's Z-Value for studied forest product companies*

	APPM			MBP SY			PCP		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Working Capital/Total Assets (A)	0,117	0,089	0,107	0,097	0,046	0,156	0,177	0,08	0,113
Retained Earnings/Total Assets (B)	0,062	0,036	0,104	0,112	0,074	0,067	-0,004	-0,073	0,002
Earnings before Interest and Taxes/Total Assets (C)	0,092	0,067	0,146	0,155	0,117	0,108	-0,001	-0,101	0,005
Market Value of Equity/Book Value of Total Debt (D)	1,489	1,102	1,394	3,058	1,938	1,645	12,265	4,433	5,719
Sales/Total Assets (E)	1,207	1,193	1,263	1,093	1,051	1,238	0,739	0,735	0,954
<b>Z-Value</b>	<b>2,63</b>	<b>2,231</b>	<b>2,856</b>	<b>3,712</b>	<b>2,759</b>	<b>2,861</b>	<b>8,299</b>	<b>3,056</b>	<b>4,541</b>
	SPPM			SWPM			KTC		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Working Capital/Total Assets (A)	0,025	-0,018	-0,163	0,416	0,236	0,284	-0,206	-0,247	-0,455
Retained Earnings/Total Assets (B)	0,276	0,015	0,089	0,085	0,008	0	-0,038	-0,119	-0,077
Earnings before Interest and Taxes/Total Assets (C)	0,276	0,015	0,083	0,11	0,011	0,003	-0,035	-0,157	-0,139
Market Value of Equity/Book Value of Total Debt (D)	0,326	0,405	0,353	0,746	0,422	0,273	0,115	0,146	0,297
Sales/Total Assets (E)	0,521	0,753	0,523	1,973	1,445	1,102	1,227	0,523	0,628
<b>Z-Value</b>	<b>2,044</b>	<b>1,045</b>	<b>0,938</b>	<b>3,4</b>	<b>2,03</b>	<b>1,616</b>	<b>0,878</b>	<b>-0,37</b>	<b>-0,308</b>

Results of numerous calculations of the Altman's model in real practice usually show that generalising Z-indicator can vary from negative 14 to positive 22. As one can see in Table 28, only one Russian forest product company (the PCP) had very low probability of insolvency and, hence, experiencing of a bankruptcy procedures during the analyzed period. The MBP SY had acceptable Z-Values; however, its results in 2005-2006 belonged to so-called "low probability zone".

At the end of 2006, the APPM increased its Z-Values of a bankruptcy from "uncertainty" to "low probability". Other three Russian forest product companies demonstrate negative Z-values, meaning that in 2006 all these businesses were "potential bankrupts". However, considering present Russian economical conditions it is better to use the Altman's method with some caution. There are few reasons for that.

Using the Altman's Z-Value for Russian companies is only possible with some limitations. First, the model was made according to the US realities and for American companies. It is obvious, that any country has its specificity of economic development including business culture, market environment, tax systems etc. Secondly, the Z-Value was modelled on data from the 1950s; economic systems have changed significantly all over the world for the last years, therefore it is not obvious that repetition of the Altman's technique with later data would leave structure of the model without changes. Thirdly, the Altman's model can be used mainly on large companies quoted at stock exchanges. Currently in Russia, there are no national models for a bankruptcy prediction. Using of foreign ones can only provide approximate results.

#### 4.6.2 The Fulmer's model

This newer method of a bankruptcy prediction can provide precise results of company's solvency. Table 29 has been created to illustrate calculations of the Fulmer's model for studied companies. The pattern scheme was also applied for this table with the only difference of using two patterns instead of four. If the H-Value was higher than zero, then resulting cell was marked by green chequered pattern. With this indicator lower than zero, it was the reason to use flat grey colour.

Table 29. The Fulmer's model of a bankruptcy prediction

	APPM			MBP SY			PCP		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
V1									
V2	1,207	1,218	1,263	1,093	1,051	1,238	0,739	0,735	0,954
V3	0,092	0,068	0,146	0,155	0,117	0,108	-0,001	-0,101	0,005
V4	0,154	0,079	0,26	0,456	0,225	0,178	-0,059	-0,394	0,011
V5	0,178	0,281	0,273	0,016	0,063	0,206	0,011	0,015	0,026
V6	0,222	0,188	0,128	0,229	0,268	0,171	0,065	0,169	0,123
V7	6,719	6,777	6,819	6,992	7,05	7,058	5,955	5,945	5,93
V8	0,839	0,493	0,523	1,267	0,939	0,842	2,595	1,105	1,265
V9	0,787	0,574	0,721	1,414	1,136	1,005			0,225
H	0,356	-0,362	-0,069	1,938	1,145	0,666	0,391	-1,418	-0,593
	SPPM			SWPM			KTC		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
V1									
V2	0,521	0,753	0,523	1,973	1,445	1,102	1,227	0,523	0,628
V3	0,276	0,015	0,083	0,11	0,011	0,003	-0,035	-0,157	-0,139
V4	0,368	0,022	0,121	0,149	0,012	0	-0,05	-0,166	-0,1
V5	0,277	0,332	0,349	0,459	0,246	0,511	0,213	0,356	0,078
V6	0,474	0,374	0,387	0,114	0,457	0,274	0,542	0,36	0,688
V7	6,644	6,71	6,718	5,078	5,05	5,492	4,911	5,261	5,14
V8	0,668	0,512	0,308	0,925	0,986	0,711	0,633	0,376	0,31
V9	1,198	0,158	0,533			0,029			
H	1,211	-0,498	-0,271	-1,327	-0,743	-1,309	-1,13	-1,956	-1,192

The Fulmer's model partly repeats results obtained with the Altman's model. According to it the MBP SY had no problems with solvency during the period. The APPM, PCP and the SPPM had tendency to normalize their creditworthiness even if these companies had poor H-Values at the end of 2006. According to the Fulmer's model, the last two companies (SWPM and the KTC) failed financially for the entire analyzed period.

#### 4.7 Comparison with the industry averages

Previous paragraphs devoted to ratio analysis have been already using the results comparison with similar businesses within the studied group of forest product companies. This comparison allowed revealing both successfully functioning businesses and bad performers in the thesis. The next step is evaluation of obtained results against average indicators of the Russian forest industry. Studied forest product companies belong to the same industry, therefore such

comparison is pertinent. For practical reasons such comparison must be easy for assessment. Therefore, Table 30 containing industry averages has been created. The table is based on information obtained from statistical database found in the Internet. (Koninin, 2005). All values were patterned according to the already used evaluation methodology.

Table 30. Average financial ratios of the Russian forest industry (1996-2004)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Liquidity Ratios</b>									
Absolute liquidity ratio (AL)	0,02	0	0,02	0,06	0,05	0,07	0,12	0,08	0,12
Quick ratio (Acid test ratio)	0,27	0,26	0,25	0,59	0,55	0,61	0,61	0,46	0,64
Current ratio (CR)	0,83	0,71	0,54	1	0,93	1	1,07	0,83	1,08
<b>Profitability Ratios</b>									
Net profit margin (NPM), %	-3,04	-5,54	2,75	28,67	9,17	7,67	8,42	3,78	4,81
Return on assets (ROA), %	-6,92	-7,17	-6,32	7,65	-1,26	-0,07	1,98	-3,11	1,31
Return on current assets (ROCA), %	-36,6	-36,34	-25,2	17,13	-2,48	-0,15	3,79	-6,19	2,33
Return on assets before interest & taxes (ROABIT), %	-10,6	-13,87	-0,12	40,96	9,73	5,73	7,95	-4,6	5,26
Return on sales (ROS), %	-5,68	-8,14	-0,07	19,98	5,16	2,89	3,41	-1,92	2,16
Return on equity (ROE), %	-8,84	-9,64	-12	14,09	-3,52	-0,18	5,52	-6,4	4,74
<b>Activity Ratios</b>									
Inventory turnover (IT), times	2,97	2,93	3,31	5,36	4,96	5,52	6,12	6,01	6,59
Total assets turnover (TAT), times	0,35	0,34	0,41	0,92	0,96	1,01	1,22	1,2	1,37
Accounts payable turnover (APT), times	1,77	1,4	1,03	2,36	2,15	2,66	4,39	3,2	4,53
Accounts receivable turnover (ART), times	6,13	4,55	4,11	3,98	3,82	3,95	5,53	6,08	5,71
Days in receivables (DR), days	60	80	89	92	96	92	66	60	64
Days in inventory (DI), days	123	124	110	68	74	66	60	61	55
Days in payables (DP), days	206	261	354	155	170	137	83	114	81
<b>Leverage Ratios</b>									
Financial leverage (FL)	0,78	0,74	0,53	0,54	0,36	0,41	0,36	0,49	0,28
Debt ratio (D/A)	0,79	0,75	0,54	0,58	0,49	0,54	0,56	0,68	0,52
Debt to equity ratio (D/E)	0,28	0,34	0,81	0,84	1,79	1,46	1,79	1,51	2,61
Equity multiplier (EM)	1,282	1,351	1,887	1,852	2,778	2,439	2,778	2,041	3,571

Table 30 shows average financial ratios of 499 Russian forest product companies and related to forestry businesses. Not every ratio that was calculated for the thesis could be obtained from the public statistical database. Unfortunately, the table does not include periods later than 2004 and the comparison with studied companies can be done only for this year. Table 30 helps to make assumptions about developing vector of the Russian forest industry for the last decade. Furthermore, next periods (2005 and 2006) may be extrapolated using calculated ratio analysis values for the thesis. Hence, all ratios of the studied forest product companies that correspond to industry averages were also averaged and summarized in additional Table 31 including their standard deviations.

First impression from Table 30 – there is only few good values there. The most noticeable fact is the shortcoming of **liquidity** for the forest industry of Russia during 1996-2004. Solvency was the main difficulty for many businesses that worked in the industry during the indicated period. At present, the economy of Russia is experiencing substantial qualitative changes, however on the example of studied forests products companies, yet it is impossible to say that all the problems have been overcome. Many Russian forest companies are still lacking quick

assets on their accounts. Average liquidity indicators prove this assumption in Table 31. In fact, according to these ratios, only one forest product company in the thesis was able to cover its immediate obligations in case of any urgent needs. It was the Syktyvkar Wood Processing Mill. However, it must be remembered about impossibility to answer in a precise manner to question about a company's liquidity without taking into consideration such aspect as barter. This form of adjustment of debts between forest product companies is very popular in Russia, but it is never revealed in accounting reports available for public.

Table 31. Average key ratios of the studied Russian forest product companies

	2004	StDev	2005	StDev	2006
<b>Liquidity Ratios</b>					
Absolute liquidity ratio (AL)	0,185	0,230	0,168	0,195	0,109
Quick ratio (Acid test ratio)	0,606	0,276	0,495	0,297	0,448
Current ratio (CR)	1,950	1,370	1,401	0,568	1,264
<b>Profitability Ratios</b>					
Net profit margin (NPM), %	1,673	6,171	-3,312	11,050	3,099
Return on assets (ROA), %	3,038	6,902	-1,547	8,672	3,717
Return on current assets (ROCA), %	9,009	17,222	-6,054	27,164	12,644
Return on assets before int&tax (ROABIT), %	5,014	9,205	-0,406	13,022	6,642
Return on sales (ROS), %	3,096	8,297	-2,818	16,025	4,926
Return on equity (ROE), %	0,743	19,835	-19,371	56,580	5,480
<b>Activity Ratios</b>					
Inventory turnover (IT), times	7,792	2,125	9,134	2,848	9,771
Total assets turnover (TAT), times	1,211	0,501	1,047	0,410	0,992
Accounts payable turnover (APT), times	7,499	5,256	6,448	3,639	6,830
Accounts receivable turnover (ART), times	6,484	1,778	5,488	1,439	5,949
Days in receivables (DR), days	65,183	26,216	73,765	22,463	76,341
Days in inventory (DI), days	52,490	13,920	46,873	15,724	42,502
Days in payables (DP), days	78,162	53,370	88,298	64,258	87,845
<b>Leverage Ratios</b>					
Financial leverage (FL)	0,529	0,299	0,478	0,283	0,453
Debt ratio (D/A)	0,471	0,299	0,522	0,283	0,547
Debt to equity ratio (D/E)	1,746	2,099	2,224	2,699	2,020
Equity multiplier (EM)	2,746	2,099	3,224	2,699	3,020

In 1996-2004, **profitability** of Russian forest industry was also far from perfection (Table 30). The average net profit margin ratio had tendency to increase from negative 3 % in 1996 to positive 4.8 % in 2004 (still it was higher than average net profit margin of the studied forest product companies). Return on assets and return on current assets ratios were lower for the industry than for the studied companies.

Unfortunately, the Internet ratio database did not provide standard deviations for the industry averages; however, for studied forest product companies they were calculated to illustrate uniformity of the values. It shows, for example, that average return on current assets equal to 12.6 % in 2005 with standard deviation 27.2, was shared between well performers and ineffectively working studied companies. In other words, this high deviation points out on heterogeneity of these values in a row. Through extrapolation of studied ratios to industry averages is possible to predict slight improvements of profitability for the industry. While it is

just an assumption, such industry average profitability ratios like the ROE and the ROS were with the same positive trend for studied companies (the APPM, the MBP SY and the SPPM provided this result). However, the rest of the ratios differ from the industry averages and general profitability of the Russian forest sector was unacceptably low.

Such **activity** ratios as Inventory turnover and Accounts payable had positive changes for the forest industry of Russia. Judging by average ratios of the studied companies, it is possible to state that such positive tendency has been kept for the industry in 2005 and 2006. Average accounts payable and average accounts receivable turnovers were higher for studied companies than for the industry in 2004. This trend observed in Table 31 has been undoubtedly retained for the entire Russian forest industry in 2005 and 2006. Acceleration of assets and liabilities turnovers for the industry is considered as positive. From fast turnovers benefited all connected to it ratios such as days in receivables, days in inventories and days in payables. There was clear upward tendency of all these ratios for the industry. As a whole, activity of Russian forest industry was evidently taking a turn for the better since 1996, even though its rates of change were just nominal. Nonetheless, Russian forest product companies can operate more effectively, taking into account size and importance of the industry. It seems that all economic reforms taking place in Russia have certain inertia for the forest industry.

**Financial independence** of companies operating in Russian forestry worsened significantly in 1996-2004 judging by the average financial leverage and debt ratios shown in Table 30. With the help of calculated ratios of the studied companies, it is possible to state that this trend was retained in 2005-2006 for the industry. Similarly, poor average D/E and EM ratios of the studied companies extrapolate the same negative trends to the forest industry in 2005 and 2006. This indicates mediocre average structure of liabilities and increased use of borrowed sources for financing main activities in the industry.

Comparison of calculated ratios with the industry averages resulted in some interesting observations. The overall financial performance of the Russian forest product industry was low for 1996-2004. However, even if changes were minimal, a few tendencies to improvement on example of some indicators were observed (total assets turnover and inventory ratios). The evaluative pattern scheme, implemented in ratio analysis paragraph, has proven to be correct by assessment of industry averages. According to it, the industry was in bad financial shape in 1996-2004.

In general, industry averages were worse than positive ratios of the studied companies for many periods. Even so, only two studied forest product companies might be called well-performing businesses. However, the proportion of successful companies and outsiders among those 499 firms represented in the industry averages stays unclear. There was no statistical data available about quality of the industry averages variation and, hence, there is no possibility to estimate its uniformity. On the other hand, projecting results of the ratio analysis to industry averages in 2005 and 2006, one can notice certain differentiation (or gap) between successful and bad performing businesses. It is not exaggeration that at present in Russian forestry there is considerable economic rupture between a large quantity of small companies and small number of leaders. The first are busy with earning of a "quick profits" and they have no means for significant investments into business. The second ones, having frequently all necessary resources, are fettered by imperfections of the legislation, problems with an infrastructure, poor quality of labour forces etc. Nowadays it became the main characteristic of the Russian forest industry.

## **5. Discussion and conclusions**

*This final part of the thesis contains explanation and discussion of the results of financial analysis. It includes general conclusions about financial performance of each studied Russian forest product company.*

### **5.1 Summary of financial analysis results**

To complete evaluation of the results of financial analysis, short summaries will be presented for each studied Russian forest products company. It partly supplements the previous paragraph where ratio analysis results have been interpreted for each studied indicator (for each ratio). This section of the thesis also includes recommendations for departments of financial management of the companies.

#### ***5.1.1 Arkhangelsk Paper and Pulp Mill***

Arkhangelsk Paper and Pulp Mill, being one of the leaders of Russian forest product industry for the last decade, have demonstrated quite good results of financial analysis in the thesis. Paper and cardboard production branches are traditionally considered as “blue chips” on the market. It is most likely that this company will continue strengthening its position in the near future. At the end of the analyzed period, the total amount of company's assets increased by 466.1 million RUR or by 5.7 % according to its balance sheets. This was connected perhaps with an expansion of economic activities. In addition, at the end of 2006 the APPM gained profit equal to 905 million RUR. Availability of net profit for the company meant available sources of replenishment of its current assets. Furthermore, the net profit had also positive tendency to increase. According to the analysis of a bankruptcy, an occurrence of any negative events for the APPM is improbable.

Liquidity of the company's capital was at acceptable and good levels. Repayment terms of accounts receivable were decreasing, i.e. the business activities of the APPM have been accelerating. Decreased stocks, together with increase of their turnover, may give evidence about rational financial and economic policy of the company's management. As a recommendation, department of financial management of the APPM should take measures to increase profitability of the company's own capital, because in some periods this indicator was below its normal values. The lack of own capital increased risk of insolvency of the company and could lead to financial instability. The borrowed funds composition was at acceptable level that indicates normal financial performance of the company for the analyzed period.

#### ***5.1.2 Mondi Business Paper Syktyvkar***

Another big player in paper and pulp sector of the Russian forestry, the Mondi Business Paper Syktyvkar, has the best results of financial analysis in the thesis. This company is one of the technological and managerial leaders that can move Russian forest product industry forward. Success of the MBP SY is undoubtedly can be a good example for other businesses in forestry and related spheres.

During the analyzed period, the amount of company's total assets increased by 632.6 million RUR or by 4.6 % that can point out certain business expansion. At the end of 2006, the MBP SY was profitable. However, the company's net profit had tendency to decrease. Repayment terms of accounts receivable were decreasing, i.e. the business activities of the company have

been accelerating. Decreased material stocks together with increase of their turnover, are giving evidence about rational financial and economic policy of the company's administration. According to bankruptcy predictions, the company will not become a bankrupt in the near-term perspective. It is most likely, that Mondi Business Paper Syktyvkar will keep this positive trend in its activities during the next years. Nevertheless, according to results of financial analysis, the company had few weak spots with profitability and absolute liquidity. For a financial department of the company it can be recommended to pay more attention to these aspects in the future

### **5.1.3 Pitkäranta Cellulose Plant**

Pitkäranta Cellulose Plant, being the average forest products company by its size, belongs to majority of the Russian forest product companies. The PCP's activities are focused mainly on production of cellulose and processing of its by-products. While big and diversified paper and pulp plants have an opportunity to support their non-remunerative branches, the middle and small firms are often become unprofitable by having narrow specialization of their production lines. According to the results of ratio analysis, the PCP was unprofitable in 2004 and 2005 (2006 was more or less successful year). As reason of the financial losses, all profitability ratios of the company for unprofitable years were critically low. At the end of the analyzed period, total amount of the PCP's assets decreased by 71.1 million RUR or by 6.2 % that can indirectly indicate a reduction of business activities. However, the company was able to gain profit in 2006. Repayments terms of accounts receivable were decreasing, i.e. the business development have been accelerating. Increased material stocks together with increase of their turnover indicate rational financial and economic policy of the company's management. Level of debt capital was at acceptable level that testifies to normal financial position of the company. Liquidity of the PCP's financial operations was one of the best in the thesis.

Heads of a financial department of the company should take measures to increase profitability because at the end of the analyzed period all correspondent indicators were at level below normal values. According to the bankruptcy prediction models, described earlier in the manuscript, such probability is low in the Altman's model and high in the Fulmer's. Still, a conclusion can be made. Taking into account the company's low profitability, a pessimistic scenario is the most plausible for the PCP.

### **5.1.4 Segezha Pulp and Paper Mill**

Results of financial analysis of the Segezha Pulp and Paper Mill and the Syktyvkar Wood Processing Mill were similar, even that these companies had different trends of profitability indicators. During the analyzed period, the SPPM has been constantly demonstrating increasing profitability together with worsening of its liquidity. The total amount of assets of the SPPM increased at the end of 2006 by 4.8 billion RUR or by 67.4 % that can be interpreted in some way as an expansion of main operations. At the end of the analyzed period, the company became profitable. The company's net profit had increasing positive tendency. Repayment terms of accounts receivable were constantly decreasing, i.e. business activities of the SPPM have been accelerating. As well, decreased amounts of inventories together with increase of their turnover, most probably point out to rational financial and economic policy of the company's administration. Profitability of the own capital was at sufficiently high level that improved efficiency of the company's business development.



In negative sense, the SPPM was characterized by high dependency on external financing, by poor financial liquidity ratios and high risk of bankruptcy. The percentage of external capital was so high, that the company was in strong “debt addiction”. Risk of insolvency was high as well.

#### **5.1.5     *Syktyvkar Wood Processing Mill***

Syktyvkar Wood Processing Mill is the only timber processing company in the thesis. The company is now recovering from a financial crisis that happened at the end of the 1990s when crisis management team was appointed by a court decision to regain financial solvency. After that, the SWPM's ownership has been changed. Financial analysis has shown satisfactory results the company had during 2004-2006. The company's financial liquidity was the worst among studied forest product companies. However, the SWPM's activity ratios were similar to ones the Mondi Business Paper Syktyvkar had for the same period. The total amount of the company's assets has increased by 151 million RUR or by 37.7 % at the end of the analyzed period that is considered as a positive fact. At the end of 2006, the SWPM became profitable. Unfortunately, the company's net profit had tendency to reduction. Repayment terms of accounts receivable have been constantly increasing, i.e. business development of the SWPM has been worsening during the period. Increased amounts of inventories together with decrease of their turnover indicate irrational financial and economic policy of the company's management. Both models of a bankruptcy prediction show negative figures and risk of possible bankruptcy is substantial.

The SWPM's financial management department should take measures to increase profitability of the company's own capital, because at the end of the analyzed period this indicator was below normal values. The lack of own capital have increased risk of insolvency for the business. Ratios of borrowed funds and own assets were so high, that the company was in a strong dependency from capital borrowings and, thus, its risk of insolvency was substantially high.

#### **5.1.6     *Koigorodok Timber Company***

Koigorodok Timber Company is the only timber-logging and harvesting forest product company in the thesis that represents the forest-management unit also known from the Soviet era as “leskhov”. There are many similar businesses in Russian forestry; however, they are rarely become financially efficient despite of their great number. The KTC is not an exception. The overall financial performance of the company was poor.

Total amount of the company's assets increased at the end of the analyzed period by 66.6 million RUR or by 25.7 % that is a sign of business stagnation. At the end of the analyzed period (and in 2005), the KTC was unprofitable. The lack of profit has conditioned an absence of main sources of renewal of current and fixed assets for the company. Repayment terms of accounts receivable have been constantly increasing, i.e. business activities of the KTC deteriorated. Nonetheless, increased inventories along with increase of their turnover indicate rational operational policy of the company's management in 2006. During the analyzed period, financial liquidity was either bad or critical. The same scenario was observed with the company's profitability. Absence of net working capital is interpreting in a borrowed nature of all company's operations for the period. Lack of own capital increased risk of insolvency essentially. At last, total amount of borrowed funds was huge and the company was in absolute debt dependency from its creditors.

An interview with the company's representative in Koigorodok brought up some interesting explanations of poor results of financial analysis. The KTC is one of the many suppliers of raw material for Mondi Business Paper Syktyvkar and affiliated with it. Because of that, the parent enterprise subsidizes all financial activities and covers all losses. It is an example of big vertical integration of forest product companies (within a holding company). Therefore, no accounting statements of the Koigorodok Timber Company are ever separated from parent reports. They are usually included in consolidated statements for the entire Mondi Group and never available for public.

## 5.2 Conclusions

After everything that was planned in the beginning of thesis has been accomplished, it is time to underline the most important findings. The thesis consists of two logical parts. The first one deals with theoretical and methodological approaches to financial analysis. Second is practical and includes application of financial analysis. The theory part can be concluded as follows:

- External financial analysis can be made for Russian commercial companies. Methodology of analysis is virtually unlimited and depends on goals that might be set by an analyst. The thesis has its own set of methods according to its goals;
- The Russian accounting system has administrative nature and suits best for needs of tax services. An application of International accounting standards is not compulsory for businesses in Russia;
- Because of administrative approach to the financial accounting in Russia, all businesses use similar types of financial statements across the nation that makes analysis and, hence, possible comparison easier. The unification of accounting statements helps to access all reports in selected group of companies through translation of only one set of statements and further collation of line codes for the others;
- Comparison of Russian accounting statements (and, therefore, results of financial analysis) with European analogues is not an easy task with the exception of the following: comparable businesses must utilize similar accounting standards (RAS, IFRS or USGAAP). Financial statements prepared according to the International accounting standards are usually not available for any third-parties in Russia as they constitute commercial classified information;
- Accessibility of Russian financial statements for a third-party analyst leaves much to be desired. In initial group of fifteen Russian forest product companies selected for analysis, only three businesses kept their accounting statements posted on their corporate web sites. The rest of the studied group was formed up with help of private contacts;
- Studied Russian forest product companies belong to the European part of country and include six companies. This region is the main geographical scope of the thesis;
- Studied Russian forest product companies represent a "chain of businesses" (logging/wood processing/paper and pulp) which are not competing with each other.

The applied part of the thesis has the following conclusions:

- Changes and structure of values in financial reports of the companies have been scrutinized. Not every company had good or satisfactory structures of their balance sheets and income statements during the analyzed period (2004 – 2006 inclusive);

- Analysis of liquidity based on balance sheet data, showed that not a single studied forest product company was financially liquid absolutely. Only few studied businesses were closer to that than others;
- Ratio analysis showed as well that all studied companies had problems with the absolute liquidity. However, other types of financial liquidity were at acceptable levels. Profitability of studied companies was poor for majority of businesses. It was connected with low returns on assets and inadequate profit margins. Activity ratios that define the companies' market strategies had more or less good figures. According to ratio analysis of financial leverage, the studied companies were divided in two groups - financially independent businesses and others that rely on external funding;
- Comparison of calculated ratios defined leaders (2 forest product companies) and bad-performers in the thesis. Such leading companies as Mondi Business Paper Syktyvkar have kept their leading positions while majority of forest product companies were in bad financial shape;
- Additional methods of financial analysis such bankruptcy prediction were also applied in the thesis. Only few of the studied businesses were secured from a risk of financial failure;
- Further evaluation of the ratio analysis results and comparison of it with industry averages gave an overview of the Russian forestry from the business point of view. For the last decade, the industry had no positive indicators with the exception of some activity ratios. The industry's average financial performance was poor from 1996 to 2004 inclusive. In addition, an attempt has been made to extrapolate the results of ratio analysis. It has not brought any good results though. Judging by the studied companies' financial performance in 2005 and 2006, the industry's financial indicators still a long way off perfection.

The Russian forest product industry can be only named as “leading sector of the national economy” by estimation of number of people it employs and not by its financial results. Unfortunately, low profitability became a distinctive feature of the industry for the last decade. First, main problems are connected with necessity of reconstruction and full modernisation of the companies' industrial equipment. It is known issue that average lifespan of machines and equipment in the Russian forestry is about 25 years. Before sufficient inflows of monetary resources will be “injected” into the core spheres of the forest industry such as timber logging and processing, low returns on assets and returns on equity will be inevitable. Small and average sized companies that focus on production of one or few forest products have little chances for success in the current economic conditions. The tendency is that they become a part of huge forest holding companies, which will be created in Russia eventually.

Technological level of the Russian forestry is high only for vertically integrated industrial complexes. Consequently, amount of required investments for modernization of the industry is also very high. For the last ten years, the financing of the forest sector has been reduced almost at 15 times. The industry is unattractive for investments because of large number of non-commercial risks connected with political instability of Russia, imperfection of legislation and absence of clear state policy regulating the sector. The problem is complicated by unstable parameters of financial and economic activity of forest product companies whereas half of them are unprofitable or are on a verge of bankruptcy.

# Bibliography

## Books and articles:

**Altman, E. 1968.** "Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy". *Journal of Finance*, iss.09, pp. 589-609.

**Brealey, R. A. and Meyers, S. C. 2003.** *Principles of Corporate Finance*. s.l. : McGraw-Hill, ISBN-10: 0072940433.

**Epstein, B. J. and Abbas, A. M. 2002.** *IAS 2003: Interpretation and Application of International Accounting Standards*. s.l. : Wiley, John & Sons, Incorporated, ISBN-10: 0471227366.

**Fabozzi, F. J. and Peterson, P. P. 2003.** *Financial Management and Analysis*. 2nd. Edition. s.l. : John Wiley & Sons, Inc, ISBN: 0-471-23484-2.

**Fulmer, J. G., Moon, J. E., Gavin, T. A., Erwin, M. J. 1984.** "A Bankruptcy Classification Model For Small Firms". *Journal of Commercial Bank Lending*. pp. 25-37.

**Gitman, L. J. 2004.** *Principles of Managerial Finance*. 10th edition. s.l. : Pearson Education, ISBN-10: 0321266552.

**Helfert, E. A. 2001.** *Financial Analysis: Tools and Techniques - a guide for managers*. s.l. : McGraw-Hill, ISBN: 0-07-139541-5 .

**Hussey, R. and Ong, A. 2005.** *International Financial Reporting Standards Desk Reference: Overview, Guide, and Dictionary*. s.l. : Wiley, ISBN-10: 047171450X.

**Jagels, M. G. and Coltman, M. M. 2003.** *Hospitality Management Accounting -8th ed.* s.l. : John Wiley & Sons, ISBN: 0-471-09222-3.

**McGee, R. W. and Preobragenskaya, G. G. 2006.** *Accounting and financial system reform in Eastern Europe and Asia*. s.l. : Springer Science & Business Media, Inc, ISBN-10: 0-387-25709-8.

**Palepu, H. and Bernard, M. 2006.** *Business Analysis and Valuation*. 2nd ed. s.l. : Academic Internet Publisher, ISBN-10: 1428809422.

**Stoyanova, E. S. 2007.** *Financial Management: Theory and Practice*. s.l. : Perspektiva, ISBN: 5-88045-096-1.

**Van Greuning, H. 2006.** *International Financial Reporting Standards: a practical guide -4th ed.* s.l. : World Bank Publications, ISBN-10: 0-8213-6768-4.

**Vance, D. I. 2003.** *Financial Analysis and Decision Making: Tools and Techniques to Solve Financial Problems and Make Effective Business Decisions* . s.l. : McGraw-Hill, ISBN: 0-07-141559-9.

## Online sources:

**FCS of Russia. 2007.** The statistics of foreign trade: archive. *Federal Customs Service of Russia: main page*. [Online] Federal Customs Service, [Cited: July 14, 2007.] <http://www.customs.ru/ru/stats/arhiv-stats-new/>.

**Gluhov, I. 2007.** Round wood cannot conquer the markets. *Ministry of Industry and Energy of Russia*. [Online] May 22, [Cited: August 28, 2007.] <http://www.minprom.gov.ru/pub/105>.

**IAS PLUS. 2007.** Use of IFRS by country and region. *IAS PLUS*, [Cited: July 31, 2007.] <http://www.iasplus.com/country/useias.htm>.

**IKF "ALT". 2006.** Analysis of financial situation by IKF "ALT". *www.gaap.ru*, [Cited: 23 June 2007.] <http://www.gaap.ru/biblio/corpfina/analyst/040.htm>.

**Koninin, M. 2005.** "Average financial ratios of the Russian forest industry and related services". *"iRatios - average industrial financial ratios of Russian economy"*, [Cited: 15 September 2007.] <http://sibprice.ru/irratios/show.php?adr=02>.

**Maksimov, O. and Voronov, K. 2006.** Financial Analysis and methodics. *Consultancy group "Voronov&Maksimov"*, [Cited: August 31, 2007.] <http://www.vmgroupru/publications/public13.htm>.

**Mondi Group. 2007.** Mondy Business Paper Syktyvkar. *Mondi Group*, [Cited: August 28, 2007.] <http://www.mondigroup.com/en/desktopdefault.aspx/tabid-351/>.

**Nazarov, A., et al. 2005.** Bulletin №3, Analytical report: "Condition and measures of the further effectiveness of utilisation of a forest fund and a timber industry complex of the country..". *Accounts Chamber of the Russian Federation*, [Cited: August 23, 2007.] <http://www.ach.gov.ru/bulletins/2005/3-15.php>.

**Pitkäranta Cellulose Plant. 2007.** About Pitkäranta Cellulose Plant, [Cited: August 28, 2007.] <http://pitzavod.onego.ru/ru/section.php?docId=3346>.

**Russian timber industry review. 2002.** Company's management. *The Company's management magazine*, [Cited: July 14, 2007.] <http://www.zhuk.net/archive/articles.asp?aid=2825>.

**SEC. 2007.** Beginners' Guide to Financial Statements. *U.S. Securities and Exchange Commission*, [Cited: July 28, 2007.] <http://www.sec.gov/investor/pubs/beginstmtguide.htm>.

**Segezha Paper and Pulp Mill. 2007.** Information about the company. *Segezha Paper and Pulp Mill*, [Cited: August 29, 2007.] <http://www.scbk.ru/portal/content/view/8/28/>.

**Smirnov, E. E. 2007.** Accounting and reporting: the time has come for an adequate standards. *www.GAAP.ru*, [Cited: July 31, 2007.] <http://gaap.ru/biblio/rusbuh/079.asp>.

**The Ministry of Industry and Energy of Russia. 2007.** "About current situation in industrial development (Jan-Dec 2006)". *The Ministry of Industry and Energy: the main portal*- The PR department of The Ministry of Industry and Energy, [Cited: July 14, 2007.] <http://www.minprom.gov.ru/ministry/dep/eapp/stat/9>.

**WWF Russia. 2007.** JCS Arkhangelsk Paper and Pulp Mill. *WWF Russia*, [Cited: August 28, 2007.] [http://www.wwf.ru/about/what\\_we\\_do/forests/aeol/members/arhbum](http://www.wwf.ru/about/what_we_do/forests/aeol/members/arhbum).

**Zemitan, G. 2005.** Methods of prognosis of firm's financial performance, [Cited: July 27, 2007.] <http://www.masters.donntu.edu.ua/2004/fvti/chizhikova/library/prognozmetod.htm>.

## **Appendixes**

List of appendixes:

1. Financial statements of the APPM (2004-2006)
2. Financial statements of the MBP SY (2004-2006)
3. Financial statements of the PCP (2004-2006)
4. Financial statements of the SPPM (2004-2006)
5. Financial statements of the SWPM (2004-2006)
6. Financial statements of the KTC (2004-2006)
7. Historical currency exchange rates
8. Russian original accounting statements

## Appendix 1. Financial statements of the APPM (2004-2006)

BALANCE SHEET			
as of <u>31st of December</u> <u>2004</u> г.			
		Форма № 1 по ОКУД	<b>0710001</b>
		Дата (год, м-ц, число)	<b>2004 12 31</b>
Company	<b>Arkhangelsk Paper and Pulp Mill (APPM)</b>	по ОКПО	<b>44397257</b>
Taxpayer ID		ИНН	<b>2903000446</b>
Type of activity	<b>paper, pulp and cardboard production</b>	по ОКВЭД	<b>21.11, 21.12, 51.56.1</b>
Legal form / Status of property	<b>JSC</b>		
		по ОКОПФ / ОКФС	<b>47 31</b>
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	<b>384/385</b>
Location (address)	<b>Novodvinsk, Melnikova st. 1, 164900 RUSSIA</b>		
		Approval date	<b>10.03.2005</b>
		Submission date	<b>10.03.2005</b>
ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	1 340	105
Fixed assets	120	3 152 880	3 244 418
Construction in progress	130	365 827	1 141 869
Financial investments in tangible assets	135	152 250	109 725
Long-term financial receivables	140	89 074	88 468
Postponed financial assets	145	-	-
Other noncurrent assets	150	6 810	10 203
<b>TOTAL part I</b>	<b>190</b>	<b>3 768 181</b>	<b>4 594 788</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	840 763	819 075
including:			
raw materials and similar valuables	211	668 944	547 196
animals	212	-	-
goods in process	213	36 152	35 151
finished commodities and goods for reselling	214	97 536	105 826
commodities shipped to customers	215	-	74 206
deferrals	216	38 131	55 988
other inventories	217	-	708
VAT on purchased goods	220	132 083	316 400
Accounts receivable (more than 12 months after reporting date)	230	34 768	36 189
including:			
from customers	231	27 116	29 918
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	5 902	5 067
other debtors	235	1 750	1 204

Accounts receivable (less than 12 months after reporting date)	240	814 557	1 148 365
including:			
from customers	241	735 204	805 025
bills receivable	242	-	-
from associated companies	243	1 115	1 115
from shareholders	244	-	-
advances to clients	245	65 721	43 660
other debtors	246	12 517	298 565
Short-term financial receivables	250	7 513	-
Cash and cash equivalents	260	146 111	52 487
Other current assets	270	-	-
<b>TOTAL part II</b>	290	1 975 795	2 372 516
<b>BALANCE</b>	300	5 743 976	6 967 304
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	780	780
Treasury shares	411	-	- 53
Additional paid-in capital	420	2 147 665	2 143 642
Reserved capital	430	117	117
including:			
reserves created according to the regulation	431	-	-
reserves created according to the constituent instruments	432	117	117
Target financing	450	-	-
Surplus earnings of previous years	460	1 767 215	1 615 195
Uncovered losses of previous years	465	63 538	63 538
Surplus earnings of the current year	470		472 126
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	3 852 239	4 168 269
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	627 994	1 153 496
Deferred tax liabilities	515	42 606	86 182
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	670 600	1 239 678
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	459 290	616 062
Accounts payable	620	750 450	929 078
including:			
to suppliers	621	325 428	561 239
bills payable	622	-	5 000
to associated companies	623	1 972	-
to personnel	624	56 238	57 018
to state and non-budget funds	625	17 752	9 096
to tax service	626	76 736	36 480
advances from customers	627	610	31 691
to other creditors	628	271 714	228 554
Liabilities to founders	630	-	147
Deferred income	640	11 397	14 070
Reserves of future expenses	650		
Other current liabilities	660		
<b>TOTAL part V</b>	690	1 221 137	1 559 357
<b>BALANCE</b>	700	5 743 976	6 967 304



# INCOME STATEMENT

as for 12 months of 2004 4 г.

		Форма № 2 по ОКУД		CODES	
		Дата (год, м-ц, число)		0710002	
Company	Arkhangelsk Paper and Pulp Mill (APPM)	по ОКПО	44397257		
Taxpayer ID		ИНН	2903000446		
Type of activity	paper, pulp and cardboard production	по ОКВЭД	21.11, 21.12, 51.56.1		
Legal form / Status of property	JSC				
		по ОКОПФ / ОКФС	47	31	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	384/385		
Location (address)	Novodvinsk, Melnikova st. 1, 164900 RUSSIA				
INDICATOR		Line	Reporting period	The period one year before reporting	
1		2	3	4	
OPERATING INCOME AND COSTS					
Total sales	010	8 412 334	7 482 880		
Costs of manufacture	020	- 6 730 178	- 6 014 980		
Gross profit	029	1 682 156	1 467 900		
Selling costs	030	- 254 190	- 37 770		
Administrative costs	040	- 437 910	- 369 687		
Operating profit (loss)	050	990 056	1 060 443		
OTHER INCOME AND COSTS					
Financial income	060	316	3 545		
Financial costs	070	- 125 098	- 141 266		
Interest in earnings of associate companies	080	921	1 133		
Other operating income	090	1 941 511	1 036 121		
Other operating costs	100	- 1 972 203	- 1 167 565		
Non-sales income	120	144 096	75 543		
Non-sales costs	130	- 337 177	- 215 798		
PROFIT (LOSS) BEFORE TAX	140	642 422	652 156		
Deffered taxes	141	3 413	6 815		
Deffered tax liabilities	142	- 43 567	- 42 622		
Income tax	150	- 172 358	- 171 688		
Income tax from previous periods	151	42 686	22 649		
Write-off deffered taxes and tax liabilities	152	- 28	11		
Extraordinary costs	180	- 442	-		
NET PROFIT (LOSS)	190	472 126	467 321		
notes:					
Fixed tax liabilities	200	58 331	24 465		
Earnings per share	201	0,606	0,599		
Losses per share	202	-	-		

# BALANCE SHEET

as of 31st of December 2005 г.

		<b>CODES</b>	
		<b>0710001</b>	
		Форма № 1 по ОКУД	
		Дата (год, м-ц, число)	<b>2004 12 31</b>
Company	<b>Arkhangelsk Paper and Pulp Mill (APPM)</b>	по ОКПО	<b>44397257</b>
Taxpayer ID		ИНН	<b>2903000446</b>
Type of activity	<b>paper, pulp and cardboard production</b>	по ОКВЭД	<b>21.11, 21.12, 51.56.1</b>
Legal form / Status of property	<b>JSC</b>		
		по ОКОПФ / ОКФС	<b>47 31</b>
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)		по ОКЕИ	<b>384/385</b>
Location (address) <b>Novodvinsk, Melnikova st. 1, 164900 RUSSIA</b>			
		Approval date	<b>10.03.2006</b>
		Submission date	<b>10.03.2006</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	105	76
Fixed assets	120	3 244 418	3 561 533
Construction in progress	130	1 141 869	1 665 267
Financial investments in tangible assets	135	109 725	70 088
Long-term financial receivables	140	88 468	499 133
Postponed financial assets	146	-	11 515
Other noncurrent assets	150	10 203	36 674
<b>TOTAL part I</b>	190	4 594 788	5 844 286
<b>II. CURRENT ASSETS</b>			
Inventories	210	819 075	729 316
including:			
raw materials and similar valuables	211	547 196	543 727
animals	212	-	-
goods in process	213	35 151	32 084
finished commodities and goods for reselling	214	105 826	88 844
commodities shipped to customers	215	74 206	44 770
deferrals	216	55 988	18 805
other inventories	217	708	1 086
VAT on purchased goods	220	316 400	370 557
Accounts receivable (more than 12 months after reporting date)	230	36 189	344 907
including:			
from customers	231	29 918	341 719
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	5 067	2 924
other debtors	235	1 204	264

Accounts receivable (less than 12 months after reporting date)	240	1 148 365	882 517
including:			
from customers	241	805 025	532 858
bills receivable	242	-	39 788
from associated companies	243	1 115	1 115
from shareholders	244	-	168 253
advances to clients	245	43 660	32 116
other debtors	246	298 565	108 387
Short-term financial receivables	250	-	-
Cash and cash equivalents	260	52 487	49 417
Other current assets	270	-	5
<b>TOTAL part II</b>	290	2 372 516	2 376 719
<b>BALANCE</b>	300	6 967 304	8 221 005
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	780	780
Treasury shares	411	- 53	-
Additional paid-in capital	420	2 143 642	2 138 102
Reserved capital	430	117	117
including:		-	-
reserves created according to the regulation	431	-	117
reserves created according to the constituent instruments	432	117	-
Target financing	450	-	-
Surplus earnings of previous years	460	1 615 195	2 171 297
Uncovered losses of previous years	465	63 538	-
Surplus earnings of the current year	470	472 126	-
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	4 168 269	4 310 296
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	1 153 496	2 153 011
Deferred tax liabilities	515	86 182	110 367
Other long-term liabilities	520	-	-
<b>TOTAL part IV</b>	590	1 239 678	2 263 378
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	616 062	574 447
Accounts payable	620	929 078	939 569
including:			
to suppliers	621	561 239	579 645
bills payable	622	5 000	63 150
to associated companies	623	-	19 963
to personnel	624	57 018	38 869
to state and non-budget funds	625	9 096	-
to tax service	626	36 480	-
advances from customers	627	31 691	38 519
to other creditors	628	228 554	199 423
Liabilities to founders	630	147	259
Deferred income	640	14 070	16 082
Reserves of future expenses	650	-	116 974
Other current liabilities	660	-	-
<b>TOTAL part V</b>	690	1 559 357	1 647 331
<b>BALANCE</b>	700	6 967 304	8 221 005

# INCOME STATEMENT

as for 12 months of 200 5 г.

Форма № 2 по ОКУД		<b>CODES</b>	
Дата (год, м-ц, число)		<b>0710002</b>	
по ОКПО		<b>2004</b>	<b>12 31</b>
Company <b>Arkhangelsk Paper and Pulp Mill (APPM)</b>	ИНН	<b>44397257</b>	
Taxpayer ID	по ОКВЭД	<b>2903000446</b>	
Type of activity <b>paper, pulp and cardboard production</b>	по ОКФС	<b>21.11, 21.12, 51.56.1</b>	
Legal form / Status of property <b>JSC</b>	по ОКЕИ	<b>47</b>	<b>31</b>
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		<b>384/385</b>	
Location (address) <b>Novodvinsk, Melnikova st. 1, 164900 RUSSIA</b>			

INDICATOR	Line	Reporting period	The period one year before reporting
1	2	3	4
<b>OPERATING INCOME AND COSTS</b>			
Total sales	010	9 810 351	8 412 334
Costs of manufacture	020	-	6 730 178
Gross profit	029	2 184 882	1 682 156
Selling costs	030	-	254 190
Administrative costs	040	-	437 910
Operating profit (loss)	050	1 175 799	990 056
<b>OTHER INCOME AND COSTS</b>			
Financial income	060	296	316
Financial costs	070	-	125 098
Interest in earnings of associate companies	080	-	921
Other operating income	090	70 157	1 941 511
Other operating costs	100	-	1 972 203
Non-sales income	120	-	144 096
Non-sales costs	130	-	337 177
<b>PROFIT (LOSS) BEFORE TAX</b>	140	549 966	642 422
Deffered taxes	141	1 311	3 413
Deffered tax liabilities	142	-	43 567
Income tax	150	-	172 358
Income tax from previous periods	151	-	42 686
Write-off deffered taxes and tax liabilities	152	-	28
Extraordinary costs	180	-	442
<b>NET PROFIT (LOSS)</b>	190	298 015	472 126
notes:			
Fixed tax liabilities	200	117 354	58 331
Earnings per share	201	0,382	0,606
Losses per share	202	-	-

# BALANCE SHEET

as of 31st of December 2006 г.

		<b>CODES</b>	
		<b>0710001</b>	
		Форма № 1 по ОКУД	<b>2004 12 31</b>
		Дата (год, м-ц, число)	<b>44397257</b>
Company	<b>Arkhangelsk Paper and Pulp Mill (APPM)</b>	по ОКПО	<b>2903000446</b>
Taxpayer ID		ИНН	<b>21.11, 21.12, 51.56.1</b>
Type of activity	<b>paper, pulp and cardboard production</b>	по ОКВЭД	<b>47 31</b>
Legal form / Status of property	<b>JSC</b>	по ОКОПФ / ОКФС	<b>384/385</b>
		по ОКЕИ	
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)			
Location (address)		<b>Novodvinsk, Melnikova st. 1, 164900 RUSSIA</b>	
		Approval date	<b>10.03.2007</b>
		Submission date	<b>10.03.2007</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	76	46
Fixed assets	120	3 561 533	5 750 730
Construction in progress	130	1 665 267	140 336
Financial investments in tangible assets	135	70 088	41 528
Long-term financial receivables	140	499 133	491 487
Postponed financial assets	146	11 515	42 091
Other noncurrent assets	150	36 674	33 663
<b>TOTAL part I</b>	190	5 844 286	6 499 881
<b>II. CURRENT ASSETS</b>			
Inventories	210	729 316	654 068
including:			
raw materials and similar valuables	211	543 727	459 525
animals	212	-	-
goods in process	213	32 084	31 098
finished commodities and goods for reselling	214	88 844	139 712
commodities shipped to customers	215	44 770	-
deferrals	216	18 805	23 352
other inventories	217	1 086	381
VAT on purchased goods	220	370 557	121 417
Accounts receivable (more than 12 months after reporting date)	230	344 907	367 811
including:			
from customers	231	341 719	367 811
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	2 924	-
other debtors	235	264	-

Accounts receivable (less than 12 months after reporting date)	240	882 517	965 604
including:			
from customers	241	532 858	650 373
bills receivable	242	39 788	-
from associated companies	243	1 115	1 115
from shareholders	244	168 253	-
advances to clients	245	32 116	93 846
other debtors	246	108 387	220 270
Short-term financial receivables	250		
Cash and cash equivalents	260	49 417	78 313
Other current assets	270	5	-
<b>TOTAL part II</b>	290	2 376 719	2 187 213
<b>BALANCE</b>	300	8 221 005	8 687 094
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	780	780
Treasury shares	411	-	252
Additional paid-in capital	420	2 138 102	2 136 264
Reserved capital	430	117	117
including:			
reserves created according to the regulation	431	117	117
reserves created according to the constituent instruments	432	-	-
Target financing	450		
Surplus earnings of previous years	460	2 171 297	2 017 090
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	-	905 017
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	4 310 296	5 059 016
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	2 153 011	2 234 434
Deferred tax liabilities	515	110 367	134 715
Other long-term liabilities	520	-	-
<b>TOTAL part IV</b>	590	2 263 378	2 369 149
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	574 447	390 409
Accounts payable	620	939 569	721 602
including:			
to suppliers	621	579 645	458 049
bills payable	622	63 150	67 202
to associated companies	623	19 963	20 086
to personnel	624	38 869	89 483
to state and non-budget funds	625	-	-
to tax service	626	-	-
advances from customers	627	38 519	12 015
to other creditors	628	199 423	74 767
Liabilities to founders	630	259	385
Deferred income	640	16 082	16 750
Reserves of future expenses	650	116 974	129 783
Other current liabilities	660	-	-
<b>TOTAL part V</b>	690	1 647 331	1 258 929
<b>BALANCE</b>	700	8 221 005	8 687 094

# INCOME STATEMENT

as for 12 months of 2006 г.

		<b>FORMA № 2 ПО ОКУД</b>		<b>CODES</b>																																																																																																																					
		Дата (год, м-ц, число)		<b>2004</b>	<b>12 31</b>																																																																																																																				
Company	<b>Arkhangelsk Paper and Pulp Mill (APPM)</b>	по ОКПО	<b>44397257</b>																																																																																																																						
Taxpayer ID		ИНН	<b>2903000446</b>																																																																																																																						
Type of activity	<b>paper, pulp and cardboard production</b>	по ОКВЭД	<b>21.11, 21.12, 51.56.1</b>																																																																																																																						
Legal form / Status of property	<b>JSC</b>	по ОКОПФ / ОКФС	<b>47</b>	<b>31</b>																																																																																																																					
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	<b>384/385</b>																																																																																																																						
Location (address)	<b>Novodvinsk, Melnikova st. 1, 164900 RUSSIA</b>																																																																																																																								
<table border="1"> <thead> <tr> <th>INDICATOR</th> <th>Line</th> <th>Reporting period</th> <th>The period one year before reporting</th> </tr> <tr> <th>1</th> <th>2</th> <th>3</th> <th>4</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>OPERATING INCOME AND COSTS</b></td> </tr> <tr> <td>Total sales</td> <td>010</td> <td>10 971 393</td> <td>9 810 351</td> </tr> <tr> <td>Costs of manufacture</td> <td>020</td> <td>- 8 148 094</td> <td>- 7 625 469</td> </tr> <tr> <td>Gross profit</td> <td>029</td> <td>2 823 299</td> <td>2 184 882</td> </tr> <tr> <td>Selling costs</td> <td>030</td> <td>- 293 900</td> <td>- 499 133</td> </tr> <tr> <td>Administrative costs</td> <td>040</td> <td>- 510 634</td> <td>- 509 950</td> </tr> <tr> <td>Operating profit (loss)</td> <td>050</td> <td>2 018 765</td> <td>1 175 799</td> </tr> <tr> <td colspan="4"><b>OTHER INCOME AND COSTS</b></td> </tr> <tr> <td>Financial income</td> <td>060</td> <td>924</td> <td>296</td> </tr> <tr> <td>Financial costs</td> <td>070</td> <td>- 298 348</td> <td>- 200 042</td> </tr> <tr> <td>Interest in earnings of associate companies</td> <td>080</td> <td>888</td> <td>-</td> </tr> <tr> <td>Other operating income</td> <td>090</td> <td>46 137</td> <td>70 157</td> </tr> <tr> <td>Other operating costs</td> <td>100</td> <td>- 496 210</td> <td>- 496 244</td> </tr> <tr> <td>Non-sales income</td> <td>120</td> <td>-</td> <td>-</td> </tr> <tr> <td>Non-sales costs</td> <td>130</td> <td>-</td> <td>-</td> </tr> <tr> <td><b>PROFIT (LOSS) BEFORE TAX</b></td> <td><b>140</b></td> <td><b>1 272 156</b></td> <td><b>549 966</b></td> </tr> <tr> <td>Deffered taxes</td> <td>141</td> <td>30 576</td> <td>1 311</td> </tr> <tr> <td>Deffered tax liabilities</td> <td>142</td> <td>- 24 349</td> <td>- 24 185</td> </tr> <tr> <td>Income tax</td> <td>150</td> <td>- 370 243</td> <td>- 226 472</td> </tr> <tr> <td>Income tax from previous periods</td> <td>151</td> <td>-</td> <td>-</td> </tr> <tr> <td>Write-off deffered taxes and tax liabilities</td> <td>152</td> <td>-</td> <td>-</td> </tr> <tr> <td>Extraordinary costs</td> <td>180</td> <td>- 3 123</td> <td>- 2 605</td> </tr> <tr> <td><b>NET PROFIT (LOSS)</b></td> <td><b>190</b></td> <td><b>905 017</b></td> <td><b>298 015</b></td> </tr> <tr> <td>notes:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Fixed tax liabilities</td> <td>200</td> <td>58 699</td> <td>117 354</td> </tr> <tr> <td>Earnings per share</td> <td>201</td> <td>1,160</td> <td>0,382</td> </tr> <tr> <td>Losses per share</td> <td>202</td> <td></td> <td></td> </tr> </tbody> </table>						INDICATOR	Line	Reporting period	The period one year before reporting	1	2	3	4	<b>OPERATING INCOME AND COSTS</b>				Total sales	010	10 971 393	9 810 351	Costs of manufacture	020	- 8 148 094	- 7 625 469	Gross profit	029	2 823 299	2 184 882	Selling costs	030	- 293 900	- 499 133	Administrative costs	040	- 510 634	- 509 950	Operating profit (loss)	050	2 018 765	1 175 799	<b>OTHER INCOME AND COSTS</b>				Financial income	060	924	296	Financial costs	070	- 298 348	- 200 042	Interest in earnings of associate companies	080	888	-	Other operating income	090	46 137	70 157	Other operating costs	100	- 496 210	- 496 244	Non-sales income	120	-	-	Non-sales costs	130	-	-	<b>PROFIT (LOSS) BEFORE TAX</b>	<b>140</b>	<b>1 272 156</b>	<b>549 966</b>	Deffered taxes	141	30 576	1 311	Deffered tax liabilities	142	- 24 349	- 24 185	Income tax	150	- 370 243	- 226 472	Income tax from previous periods	151	-	-	Write-off deffered taxes and tax liabilities	152	-	-	Extraordinary costs	180	- 3 123	- 2 605	<b>NET PROFIT (LOSS)</b>	<b>190</b>	<b>905 017</b>	<b>298 015</b>	notes:				Fixed tax liabilities	200	58 699	117 354	Earnings per share	201	1,160	0,382	Losses per share	202		
INDICATOR	Line	Reporting period	The period one year before reporting																																																																																																																						
1	2	3	4																																																																																																																						
<b>OPERATING INCOME AND COSTS</b>																																																																																																																									
Total sales	010	10 971 393	9 810 351																																																																																																																						
Costs of manufacture	020	- 8 148 094	- 7 625 469																																																																																																																						
Gross profit	029	2 823 299	2 184 882																																																																																																																						
Selling costs	030	- 293 900	- 499 133																																																																																																																						
Administrative costs	040	- 510 634	- 509 950																																																																																																																						
Operating profit (loss)	050	2 018 765	1 175 799																																																																																																																						
<b>OTHER INCOME AND COSTS</b>																																																																																																																									
Financial income	060	924	296																																																																																																																						
Financial costs	070	- 298 348	- 200 042																																																																																																																						
Interest in earnings of associate companies	080	888	-																																																																																																																						
Other operating income	090	46 137	70 157																																																																																																																						
Other operating costs	100	- 496 210	- 496 244																																																																																																																						
Non-sales income	120	-	-																																																																																																																						
Non-sales costs	130	-	-																																																																																																																						
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>140</b>	<b>1 272 156</b>	<b>549 966</b>																																																																																																																						
Deffered taxes	141	30 576	1 311																																																																																																																						
Deffered tax liabilities	142	- 24 349	- 24 185																																																																																																																						
Income tax	150	- 370 243	- 226 472																																																																																																																						
Income tax from previous periods	151	-	-																																																																																																																						
Write-off deffered taxes and tax liabilities	152	-	-																																																																																																																						
Extraordinary costs	180	- 3 123	- 2 605																																																																																																																						
<b>NET PROFIT (LOSS)</b>	<b>190</b>	<b>905 017</b>	<b>298 015</b>																																																																																																																						
notes:																																																																																																																									
Fixed tax liabilities	200	58 699	117 354																																																																																																																						
Earnings per share	201	1,160	0,382																																																																																																																						
Losses per share	202																																																																																																																								

## **Appendix 2. Financial statements of the MBP SY (2004-2006)**



# BALANCE SHEET

as of 31st of December 2004 г.

Форма № 1 по ОКУД		<b>CODES</b>	
Дата (год, м-ц, число)		<b>0710001</b>	
по ОКПО		<b>2004</b>	<b>12 31</b>
ИНН		<b>279404</b>	
по ОКВЭД		<b>121003135</b>	
по ОКОПФ / ОКФС		<b>21.1</b>	
по ОКЕИ		<b>47</b>	<b>34</b>
<b>384/385</b>			

Company <b>Mondi Business Paper Syktyvkar</b>	
Taxpayer ID	
Type of activity <b>industry</b>	
Legal form / Status of property <b>JSC</b>	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)	
Location (address) <b>Syktyvkar, Bumazhnikov 2, 167026 RUSSIA</b>	

	Approval date
	<b>10.03.2005</b>
	Submission date
	<b>10.03.2005</b>

ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	76 925	109 767
Fixed assets	120	6 906 857	6 915 278
Construction in progress	130	897 901	1 334 625
Financial investments in tangible assets	135	-	1 125
Long-term financial receivables	140	85 919	60 436
Deferred tax assets	145	36 782	71 628
Other noncurrent assets	150	2 185	13 684
<b>TOTAL part I</b>	190	8 006 569	8 506 543
<b>II. CURRENT ASSETS</b>			
Inventories	210	1 531 143	1 577 285
including:			
raw materials and similar valuables	211	1 084 569	1 126 458
animals	212	-	-
goods in process	213	81 567	176 076
finished commodities and goods for reselling	214	285 049	195 303
commodities shipped to customers	215	-	-
deferrals	216	70 185	76 168
other inventories	217	9 773	3 280
VAT on purchased goods	220	369 034	431 579
Accounts receivable (more than 12 months after reporting date)	230	250 008	198 702
including:			
from customers	231	250 008	198 702
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	1 975 240	1 710 936
including:			
from customers	241	1 336 056	1 126 616
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246	639 184	584 320
Short-term financial receivables	250	81 965	36 711
Cash and cash equivalents	260	121 460	176 009
Other current assets	270	5 111	1 492
<b>TOTAL part II</b>	290	4 333 961	4 132 714
<b>BALANCE</b>	300	12 340 530	12 639 257
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	27 130	387 560
Treasury shares	411		
Additional paid-in capital	420	3 729 463	3 296 632
Reserved capital	430	58 264	63 650
including:			
reserves created according to the regulation	431	5 000	5 000
reserves created according to the constituent instruments	432	53 264	58 650
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	5 583 414	5 777 128
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	9 398 271	9 524 970
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	-	-
Deferred tax liabilities	515	125 276	204 656
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	125 276	204 656
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	1 407 571	1 662 473
Accounts payable	620	1 257 684	1 233 850
including:			
to suppliers	621	498 359	368 365
bills payable	622		
to associated companies	623		
to personnel	624	187 763	172 411
to state and non-budget funds	625	45 464	45 105
to tax service	626	104 818	180 340
advances from customers	627		
to other creditors	628	421 280	467 629
Liabilities to founders	630	2 408	3 522
Deferred income	640	145 975	5 188
Reserves of future expenses	650	1 892	4 598
Other current liabilities	660	1 453	-
<b>TOTAL part V</b>	690	2 816 983	2 909 631
<b>BALANCE</b>	700	12 340 530	12 639 257

# INCOME STATEMENT

as for 12 months of 2004 4 г.

		<b>FORMS</b>	
		<b>0710001</b>	
Дата (год, м-ц, число)		<b>2004</b>	<b>12</b> <b>31</b>
Форма № 2 по ОКУД		<b>279404</b>	
по ОКПО		<b>121003135</b>	
ИНН		<b>21.1</b>	
по ОКВЭД		<b>47</b> <b>34</b>	
по ОКОПФ / ОКФС		<b>384/385</b>	
по ОКЕИ			
Company	<b>Mondi Business Paper Syktyvkar</b>		
Taxpayer ID			
Type of activity	<b>industry</b>		
Legal form / Status of property	<b>JSC</b>		
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)			
Location (address)	<b>Syktyvkar, Bumazhnikov 2, 167026 RUSSIA</b>		

INDICATOR	Line	Reporting period	The period one year before reporting
1	2	3	4
<b>OPERATING INCOME AND COSTS</b>			
Total sales	010	13 810 328	11 132 304
Costs of manufacture	020	- 9 348 132	- 7 203 453
Gross profit	029	4 462 196	3 928 851
Selling costs	030	- 1 117 396	- 673 894
Administrative costs	040	- 1 054 501	- 909 143
Operating profit (loss)	050	2 290 299	2 345 814
<b>OTHER INCOME AND COSTS</b>			
Financial income	060	4 313	2 341
Financial costs	070	- 77 734	- 44 313
Interest in earnings of associate companies	080	19 575	239
Other operating income	090	210 391	31 585
Other operating costs	100	- 193 315	- 303 877
Non-sales income	120	279 470	241 793
Non-sales costs	130	- 571 129	- 433 127
<b>PROFIT (LOSS) BEFORE TAX</b>	140	1 961 870	1 840 455
Deffered taxes	141	35 319	36 683
Deffered tax liabilities	142	- 89 737	- 125 310
Income tax	150	- 499 955	- 448 261
Income tax from previous periods	151	8 999	-
Write-off deffered taxes and tax liabilities	152		
Extraordinary costs	180		
<b>NET PROFIT (LOSS)</b>	190	1 416 496	1 303 567
notes:			
Fixed tax liabilities	200	86 186	63 330
Earnings per share	201		
Losses per share	202		

# BALANCE SHEET

as of 31st of December 2005 г.

		<b>CODES</b>	
		<b>0710001</b>	
Форма № 1 по ОКУД		<b>2004</b>	<b>12 31</b>
Дата (год, м-ц, число)			
по ОКПО		<b>279404</b>	
ИНН		<b>121003135</b>	
по ОКВЭД		<b>21.1</b>	
по ОКОПФ / ОКФС		<b>47</b>	<b>34</b>
по ОКЕИ		<b>384/385</b>	
Company <b>Mondi Business Paper Syktyvkar</b> Taxpayer ID _____ Type of activity <b>industry</b> Legal form / Status of property <b>JSC</b> Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary) Location (address) <b>Syktyvkar, Bumazhnikov 2, 167026 RUSSIA</b>			
Approval date <b>10.03.2006</b> Submission date <b>10.03.2006</b>			
ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	109 767	47 502
Fixed assets	120	6 915 278	7 434 844
Construction in progress	130	1 334 625	1 766 105
Financial investments in tangible assets	135	1 125	73
Long-term financial receivables	140	60 436	2 738
Deferred tax assets	145	71 628	124 136
Other noncurrent assets	150	13 684	4 158
<b>TOTAL part I</b>	<b>190</b>	<b>8 506 543</b>	<b>9 379 556</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	1 577 285	2 016 732
including:			
raw materials and similar valuables	211	1 126 458	1 399 287
animals	212	-	-
goods in process	213	176 076	222 771
finished commodities and goods for reselling	214	195 303	224 571
commodities shipped to customers	215	-	9 910
deferrals	216	76 168	160 155
other inventories	217	3 280	38
VAT on purchased goods	220	431 579	305 143
Accounts receivable (more than 12 months after reporting date)	230	198 702	184 541
including:			
from customers	231	198 702	184 541
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	-	-
other debtors	235	-	-

Accounts receivable (less than 12 months after reporting date)	240	1 710 936	1 867 302
including:			
from customers	241	1 126 616	1 079 035
bills receivable	242	-	-
from associated companies	243	-	-
from shareholders	244	-	-
advances to clients	245	-	-
other debtors	246	584 320	788 267
Short-term financial receivables	250	36 711	-
Cash and cash equivalents	260	176 009	105 905
Other current assets	270	1 492	7 989
<b>TOTAL part II</b>	290	4 132 714	4 487 612
<b>BALANCE</b>	300	12 639 257	13 867 168
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	387 560	387 560
Treasury shares	411	-	-
Additional paid-in capital	420	3 296 632	3 280 404
Reserved capital	430	63 650	66 509
including:		-	-
reserves created according to the regulation	431	5 000	5 145
reserves created according to the constituent instruments	432	58 650	61 364
Target financing	450	-	-
Surplus earnings of previous years	460	-	-
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	5 777 128	5 412 718
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	9 524 970	9 147 191
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	-	557 516
Deferred tax liabilities	515	204 656	312 839
Other long-term liabilities	520	-	-
<b>TOTAL part IV</b>	590	204 656	870 355
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	1 662 473	2 423 360
Accounts payable	620	1 233 850	1 282 190
including:			
to suppliers	621	368 365	693 222
bills payable	622	-	-
to associated companies	623	-	-
to personnel	624	172 411	197 579
to state and non-budget funds	625	45 105	49 129
to tax service	626	180 340	92 080
advances from customers	627	-	-
to other creditors	628	467 629	250 180
Liabilities to founders	630	3 522	4 437
Deferred income	640	5 188	138 512
Reserves of future expenses	650	4 598	1 123
Other current liabilities	660	-	-
<b>TOTAL part V</b>	690	2 909 631	3 849 622
<b>BALANCE</b>	700	12 639 257	13 867 168

# INCOME STATEMENT

as for 12 months of 2005 г.

			Форма № 2 по ОКУД			CODES		
			Дата (год, м-ц, число)			0710001		
Company <b>Mondi Business Paper Syktyvkar</b>			по ОКПО			2004	12	31
Taxpayer ID			ИНН			279404		
Type of activity <b>industry</b>			по ОКВЭД			121003135		
Legal form / Status of property <b>JSC</b>						21.1		
			по ОКОПФ / ОКФС			47	34	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)			по ОКЕИ			384/385		
Location (address) <b>Syktyvkar, Bumazhnikov 2, 167026 RUSSIA</b>								
INDICATOR		Line	Reporting period		The period one year before reporting			
1		2	3		4			
OPERATING INCOME AND COSTS								
Total sales		010	14 572 144		13 810 328			
Costs of manufacture		020	-	9 698 186	-	9 348 132		
Gross profit		029	4 873 958		4 462 196			
Selling costs		030	-	1 274 144	-	1 117 396		
Administrative costs		040	-	1 200 937	-	1 054 501		
Operating profit (loss)		050	2 398 877		2 290 299			
OTHER INCOME AND COSTS								
Financial income		060	1 054		4 313			
Financial costs		070	-	128 226	-	77 734		
Interest in earnings of associate companies		080	1 672		19 575			
Other operating income		090	2 934 083		210 391			
Other operating costs		100	-	3 580 564	-	193 315		
Non-sales income		120	-		279 470			
Non-sales costs		130	-		-	571 129		
PROFIT (LOSS) BEFORE TAX		140	1 626 896		1 961 870			
Deffered taxes		141	45 240		35 319			
Deffered tax liabilities		142	-	113 315	-	89 737		
Income tax		150	-	520 863	-	499 955		
Income tax from previous periods		151	-	10 769	8 999			
Write-off deffered taxes and tax liabilities		152	2 070		-			
Extraordinary costs		180	-		-			
NET PROFIT (LOSS)		190	1 029 259		1 416 496			
notes:								
Fixed tax liabilities		200	-		86 186			
Earnings per share		201	-		-			
Losses per share		202	-		-			

# BALANCE SHEET

as of 31st of December 2006 г.

		<b>CODES</b>	
		<b>0710001</b>	
		Форма № 1 по ОКУД	
		Дата (год, м-ц, число)	<b>2004 12 31</b>
Company	<b>Mondi Business Paper Syktyvkar</b>	по ОКПО	<b>279404</b>
Taxpayer ID		ИНН	<b>121003135</b>
Type of activity	<b>industry</b>	по ОКВЭД	<b>21.1</b>
Legal form / Status of property	<b>JSC</b>		
		по ОКОПФ / ОКФС	<b>47 34</b>
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)		по ОКЕИ	<b>384/385</b>
Location (address)	<b>Syktyvkar, Bumazhnikov 2, 167026 RUSSIA</b>		
		Approval date	<b>10.03.2007</b>
		Submission date	<b>10.03.2007</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	47 502	83 118
Fixed assets	120	7 434 844	7 580 373
Construction in progress	130	1 766 105	1 862 360
Financial investments in tangible assets	135	73	70
Long-term financial receivables	140	2 738	1 538
Deferred tax assets	145	124 136	208 649
Other noncurrent assets	150	4 158	6 661
<b>TOTAL part I</b>	190	9 379 556	9 742 769
<b>II. CURRENT ASSETS</b>			
Inventories	210	2 016 732	1 998 766
including:			
raw materials and similar valuables	211	1 399 287	1 347 151
animals	212	-	-
goods in process	213	222 771	216 583
finished commodities and goods for reselling	214	224 571	223 924
commodities shipped to customers	215	9 910	4 622
deferrals	216	160 155	206 486
other inventories	217	38	-
VAT on purchased goods	220	305 143	241 515
Accounts receivable (more than 12 months after reporting date)	230	184 541	149 271
including:			
from customers	231	184 541	147 599
bills receivable	232	-	
from associated companies	233	-	
advances to clients	234	-	
other debtors	235	-	1 672

Accounts receivable (less than 12 months after reporting date)	240	1 867 302	2 308 977
including:			
from customers	241	1 079 035	1 557 665
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246	788 267	751 312
Short-term financial receivables	250	-	-
Cash and cash equivalents	260	105 905	48 429
Other current assets	270	7 989	10 017
<b>TOTAL part II</b>	290	4 487 612	4 756 975
<b>BALANCE</b>	300	13 867 168	14 499 744
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	387 560	387 560
Treasury shares	411	-	-
Additional paid-in capital	420	3 280 404	3 260 865
Reserved capital	430	66 509	72 722
including:			
reserves created according to the regulation	431	5 145	5 000
reserves created according to the constituent instruments	432	61 364	67 722
Target financing	450	-	-
Surplus earnings of previous years	460	-	-
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	5 412 718	5 296 985
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	9 147 191	9 018 132
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	557 516	2 567 010
Deferred tax liabilities	515	312 839	407 554
Other long-term liabilities	520	-	12 060
<b>TOTAL part IV</b>	590	870 355	2 986 624
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	2 423 360	1 200 893
Accounts payable	620	1 282 190	1 280 032
including:			
to suppliers	621	693 222	759 432
bills payable	622		
to associated companies	623		
to personnel	624	197 579	211 168
to state and non-budget funds	625	49 129	49 747
to tax service	626	92 080	110 845
advances from customers	627		
to other creditors	628	250 180	148 840
Liabilities to founders	630	4 437	5 398
Deferred income	640	138 512	5 596
Reserves of future expenses	650	1 123	3 069
Other current liabilities	660	-	-
<b>TOTAL part V</b>	690	3 849 622	2 494 988
<b>BALANCE</b>	700	13 867 168	14 499 744



# INCOME STATEMENT

as for 12 months of 200 6 г.

			FORMA № 2 ПО ОКУД			CODES			
			Дата (год, м-ц, число)			0710001			
Company	Mondi Business Paper Syktyvkar					по ОКПО	2004	12	31
Taxpayer ID						ИНН	279404		
Type of activity	industry					по ОКВЭД	121003135		
Legal form / Status of property	JSC						21.1		
						по ОКОПФ / ОКФС	47	34	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)						по ОКЕИ	384/385		
Location (address)						Syktyvkar, Bumazhnikov 2, 167026 RUSSIA			
INDICATOR					Line	Reporting period		The period one year before reporting	
1					2	3		4	
OPERATING INCOME AND COSTS									
Total sales					010	17 950 100		14 572 144	
Costs of manufacture					020	-	12 424 158	-	9 698 186
Gross profit					029	5 525 942		4 873 958	
Selling costs					030	-	1 366 022	-	1 274 144
Administrative costs					040	-	1 280 673	-	1 200 937
Operating profit (loss)					050	2 879 247		2 398 877	
OTHER INCOME AND COSTS									
Financial income					060	739		1 054	
Financial costs					070	-	171 184	-	128 226
Interest in earnings of associate companies					080	1 393		1 672	
Other operating income					090	2 381 796		2 934 083	
Other operating costs					100	-	3 527 577	-	3 580 564
Non-sales income					120	-		-	
Non-sales costs					130	-		-	
PROFIT (LOSS) BEFORE TAX					140	1 564 414		1 626 896	
Deffered taxes					141	100 098		45 240	
Deffered tax liabilities					142	-	92 343	-	113 315
Income tax					150	-	574 312	-	520 863
Income tax from previous periods					151	-	27 598	-	10 769
Write-off deffered taxes and tax liabilities					152	1 592		2 070	
Extraordinary costs					180				
NET PROFIT (LOSS)					190	971 851		1 029 259	
notes:									
Fixed tax liabilities					200				
Earnings per share					201				
Losses per share					202				

### **Appendix 3. Financial statements of the PCP (2004-2006)**

# BALANCE SHEET

as of 31st of December 2004 г.

Форма № 1 по ОКУД		<b>CODES</b>	
Дата (год, м-ц, число)		<b>0710001</b>	
по ОКПО		<b>2004</b>	<b>12 31</b>
ИНН		<b>279404</b>	
по ОКВЭД		<b>1005050046</b>	
по ОКОПФ / ОКФС		<b>21.11</b>	
по ОКЕИ		<b>47</b>	<b>34</b>
<b>384/385</b>			

Company <b>JSC Pitkäranta Pulp Factory</b>	
Taxpayer ID	
Type of activity <b>Pulp and mechanical wood pulp production</b>	
Legal form / Status of property <b>JSC</b>	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)	
Location (address) <b>Pitkäranta, 186810 Karelia, RUSSIA</b>	

	Approval date <b>10.03.2005</b>
	Submission date <b>10.03.2005</b>

ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	-	18
Fixed assets	120	797 742	799 005
Construction in progress	130	27 928	21 899
Financial investments in tangible assets	135	-	-
Long-term financial receivables	140	1 759	1 661
Deferred tax assets	145	16 136	16 053
Other noncurrent assets	150		3 389
<b>TOTAL part I</b>	190	843 565	842 025
<b>II. CURRENT ASSETS</b>			
Inventories	210	68 720	79 821
including:			
raw materials and similar valuables	211	60 567	75 963
animals	212	-	-
goods in process	213	1 776	651
finished commodities and goods for reselling	214	5 444	2 103
commodities shipped to customers	215	-	-
deferrals	216	933	1 104
other inventories	217	-	-
VAT on purchased goods	220	23 795	28 965
Accounts receivable (more than 12 months after reporting date)	230	37 081	50 895
including:			
from customers	231	37 081	50 895
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	89 573	104 557
including:			
from customers	241	33 137	31 677
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245	16 466	16 446
other debtors	246	39 970	56 434
Short-term financial receivables	250	-	-
Cash and cash equivalents	260	17 480	3 843
Other current assets	270	-	-
<b>TOTAL part II</b>	290	236 649	268 081
<b>BALANCE</b>	300	1 080 214	1 110 106
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	6 792	6 792
Treasury shares	411		
Additional paid-in capital	420	899 473	899 151
Reserved capital	430	-	-
including:			
reserves created according to the regulation	431		
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	131 457	120 477
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	1 037 722	1 026 420
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510		
Deferred tax liabilities	515	5 908	11 761
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	5 908	11 761
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	-	15 080
Accounts payable	620	36 584	56 845
including:			
to suppliers	621	11 775	29 598
bills payable	622		
to associated companies	623		
to personnel	624	4 475	3 503
to state and non-budget funds	625	2 874	2 380
to tax service	626	4 716	8 413
advances from customers	627	12 370	12 485
to other creditors	628	374	466
Liabilities to founders	630	-	-
Deferred income	640	-	-
Reserves of future expenses	650	-	-
Other current liabilities	660	-	-
<b>TOTAL part V</b>	690	36 584	71 925
<b>BALANCE</b>	700	1 080 214	1 110 106

# INCOME STATEMENT

as for 12 months of 2004 4 г.

		Форма № 2 по ОКУД		КОДЫ	
		Дата (год, м-ц, число)		0710002	
Company	JSC Pitkäranta Pulp Factory	по ОКПО		2004	12 31
Taxpayer ID		ИНН		279404	
Type of activity	Pulp and mechanical wood pulp production	по ОКВЭД		1005050046	
Legal form / Status of property	JSC			21.11	
		по ОКОПФ / ОКФС		47	34
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ		384/385	
Location (address)	Pitkäranta, 186810 Karelia, RUSSIA				
INDICATOR		Line	Reporting period	The period one year before reporting	
1		2	3	4	
OPERATING INCOME AND COSTS					
Total sales	010	820 817		734 114	
Costs of manufacture	020	- 789 194	-	727 612	
Gross profit	029	31 623		6 502	
Selling costs	030	- 12 385	-	10 827	
Administrative costs	040				
Operating profit (loss)	050	19 238	-	4 325	
OTHER INCOME AND COSTS					
Financial income	060	208		226	
Financial costs	070	- 791	-	409	
Interest in earnings of associate companies	080	-		1	
Other operating income	090	1 987		773	
Other operating costs	100	- 21 690	-	25 124	
Non-sales income	120	6 653		18 273	
Non-sales costs	130	- 7 217	-	12 017	
PROFIT (LOSS) BEFORE TAX		140	- 1 612	-	22 602
Deffered taxes	141	1 693		10 818	
Deffered tax liabilities	142	- 4 240	-	5 908	
Income tax on imputed earnings	150	96			
Income tax from previous periods	151	- 659	-	2	
Write-off deffered taxes and tax liabilities	152	486		-	
Extraordinary costs	180	- 551			
NET PROFIT (LOSS)		190	- 4 979	-	17 694
notes:					
Fixed tax liabilities	200	2 949		514	
Earnings per share	201				
Losses per share	202				

# BALANCE SHEET

as of 31st of December 2005 г.

		<b>CODES</b>	
		<b>0710001</b>	
Форма № 1 по ОКУД			
Дата (год, м-ц, число)		<b>2005</b>	<b>12 31</b>
Company <b>JSC Pitkäranta Pulp Factory</b>	по ОКПО	<b>279404</b>	
Taxpayer ID	ИНН	<b>1005050046</b>	
Type of activity <b>Pulp and mechanical wood pulp production</b>	по ОКВЭД	<b>21.11</b>	
Legal form / Status of property <b>JSC</b>			
	по ОКОПФ / ОКФС	<b>47</b>	<b>34</b>
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)	по ОКЕИ	<b>384/385</b>	
Location (address) <b>Pitkäranta, 186810 Karelia, RUSSIA</b>			
		Approval date	<b>10.03.2006</b>
		Submission date	<b>10.03.2006</b>

ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	18	16
Fixed assets	120	799 005	773 570
Construction in progress	130	21 899	37 561
Financial investments in tangible assets	135	-	-
Long-term financial receivables	140	1 661	1 761
Deferred tax assets	145	16 053	49 162
Other noncurrent assets	150	3 389	-
<b>TOTAL part I</b>	<b>190</b>	<b>842 025</b>	<b>862 070</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	79 821	69 144
including:			
raw materials and similar valuables	211	75 963	64 584
animals	212	-	-
goods in process	213	651	999
finished commodities and goods for reselling	214	2 103	2 905
commodities shipped to customers	215	-	-
deferrals	216	1 104	656
other inventories	217	-	-
VAT on purchased goods	220	28 965	24 379
Accounts receivable (more than 12 months after reporting date)	230	50 895	51 800
including:			
from customers	231	50 895	51 800
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	-	-
other debtors	235	-	-

Accounts receivable (less than 12 months after reporting date)	240	104 557	118 987
including:			
from customers	241	31 677	26 509
bills receivable	242	-	-
from associated companies	243	-	-
from shareholders	244	-	-
advances to clients	245	16 446	13 630
other debtors	246	56 434	78 848
Short-term financial receivables	250	-	-
Cash and cash equivalents	260	3 843	21 346
Other current assets	270	-	-
<b>TOTAL part II</b>	290	268 081	285 656
<b>BALANCE</b>	300	1 110 106	1 147 726
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	6 792	6 792
Treasury shares	411	-	-
Additional paid-in capital	420	899 151	890 773
Reserved capital	430	-	-
including:		-	-
reserves created according to the regulation	431	-	-
reserves created according to the constituent instruments	432	-	-
Target financing	450	-	-
Surplus earnings of previous years	460	-	-
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	120 477	38 467
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	1 026 420	936 032
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	-	-
Deferred tax liabilities	515	11 761	17 325
Other long-term liabilities	520	-	-
<b>TOTAL part IV</b>	590	11 761	17 325
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	15 080	97 926
Accounts payable	620	56 845	96 442
including:			
to suppliers	621	29 598	54 964
bills payable	622	-	-
to associated companies	623	-	-
to personnel	624	3 503	4 131
to state and non-budget funds	625	2 380	1 571
to tax service	626	8 413	11 697
advances from customers	627	12 485	23 088
to other creditors	628	466	991
Liabilities to founders	630	-	-
Deferred income	640	-	-
Reserves of future expenses	650	-	-
Other current liabilities	660	-	-
<b>TOTAL part V</b>	690	71 925	194 368
<b>BALANCE</b>	700	1 110 106	1 147 725

# INCOME STATEMENT

as for 12 months of 200 5 г.

		Форма № 2 по ОКУД		CODES	
		Дата (год, м-ц, число)		0710002	
Company	JSC Pitkäranta Pulp Factory	по ОКПО	2005	12	31
Taxpayer ID		ИНН	279404		
Type of activity	Pulp and mechanical wood pulp production	по ОКВЭД	1005050046		
Legal form / Status of property	JSC		21.11		
		по ОКОПФ / ОКФС	47	34	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	384/385		
Location (address)	Pitkäranta, 186810 Karelia, RUSSIA				
INDICATOR	Line	Reporting period	The period one year before reporting		
1	2	3	4		
<b>OPERATING INCOME AND COSTS</b>					
Total sales	010	843 180	820 817		
Costs of manufacture	020	- 908 473	- 789 194		
Gross profit	029	- 65 293	31 623		
Selling costs	030	- 15 713	- 12 385		
Administrative costs	040	- 1 119	-		
Operating profit (loss)	050	- 82 125	19 238		
<b>OTHER INCOME AND COSTS</b>					
Financial income	060	82	208		
Financial costs	070	- 5 434	- 791		
Interest in earnings of associate companies	080	-	-		
Other operating income	090	13 689	1 987		
Other operating costs	100	- 41 683	- 21 690		
Non-sales income	120	-	6 653		
Non-sales costs	130	-	- 7 217		
<b>PROFIT (LOSS) BEFORE TAX</b>	140	- 115 471	- 1 612		
Deffered taxes	141	29 823	1 693		
Deffered tax liabilities	142	- 5 564	- 4 240		
Income tax	150	-	96		
Income tax from previous periods	151	- 81	659		
Write-off deffered taxes and tax liabilities	152	8 017	486		
Extraordinary costs	180	- 49	551		
<b>NET PROFIT (LOSS)</b>	190	- 83 325	- 4 979		
notes:					
Fixed tax liabilities	200	3 453	2 949		
Earnings per share	201	-	-		
Losses per share	202	-	-		



# BALANCE SHEET

as of 31st of December 2006 г.

		<b>КОДЕС</b>	
		<b>0710001</b>	
		Форма № 1 по ОКУД	
		Дата (год, м-ц, число)	<b>2006 12 31</b>
Company <b>JSC Pitkäranta Pulp Factory</b>		по ОКПО	<b>279404</b>
Taxpayer ID		ИНН	<b>1005050046</b>
Type of activity <b>Pulp and mechanical wood pulp production</b>		по ОКВЭД	<b>21.11</b>
Legal form / Status of property <b>JSC</b>			
		по ОКОПФ / ОКФС	<b>47 34</b>
Units: thousands RUR / millions RUR (cross-out unnecessary)		по ОКЕИ	<b>384/385</b>
Location (address) <b>Pitkäranta, 186810 Karelia, RUSSIA</b>			

Approval date	<b>10.03.2007</b>
Submission date	<b>10.03.2007</b>

ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	16	14
Fixed assets	120	773 570	756 403
Construction in progress	130	37 561	12 107
Financial investments in tangible assets	135	-	-
Long-term financial receivables	140	1 761	1 761
Deferred tax assets	145	49 162	51 835
Other noncurrent assets	150		
<b>TOTAL part I</b>	<b>190</b>	<b>862 070</b>	<b>822 120</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	69 144	83 063
including:			
raw materials and similar valuables	211	64 584	70 843
animals	212	-	-
goods in process	213	999	1 203
finished commodities and goods for reselling	214	2 905	10 441
commodities shipped to customers	215		
deferrals	216	656	576
other inventories	217		
VAT on purchased goods	220	24 379	8 885
Accounts receivable (more than 12 months after reporting date)	230	51 800	51 800
including:			
from customers	231	51 800	51 800
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	118 987	98 662
including:			
from customers	241	26 509	34 198
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245	13 630	11 877
other debtors	246	78 848	52 587
Short-term financial receivables	250	-	-
Cash and cash equivalents	260	21 346	12 130
Other current assets	270	-	-
<b>TOTAL part II</b>	290	285 656	254 540
<b>BALANCE</b>	300	1 147 726	1 076 660
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	6 792	6 792
Treasury shares	411		
Additional paid-in capital	420	890 773	888 004
Reserved capital	430	-	-
including:			
reserves created according to the regulation	431		
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	38 467	21 630
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	936 032	916 426
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510		
Deferred tax liabilities	515	17 325	27 841
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	17 325	27 841
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	97 926	53 058
Accounts payable	620	96 442	79 334
including:			
to suppliers	621	54 964	38 717
bills payable	622		
to associated companies	623		
to personnel	624	4 131	5 661
to state and non-budget funds	625	1 571	2 618
to tax service	626	11 697	9 252
advances from customers	627	23 088	22 284
to other creditors	628	991	802
Liabilities to founders	630		
Deferred income	640		1
Reserves of future expenses	650		
Other current liabilities	660		
<b>TOTAL part V</b>	690	194 368	132 393
<b>BALANCE</b>	700	1 147 725	1 076 660

# INCOME STATEMENT

as for 12 months of 200 6 г.

Форма № 2 по ОКУД		<b>CODES</b>	
Дата (год, м-ц, число)		<b>0710002</b>	
по ОКПО		<b>2006</b>	<b>12 31</b>
Company <b>JSC Pitkäranta Pulp Factory</b>	по ОКПО	<b>279404</b>	
Taxpayer ID	ИНН	<b>1005050046</b>	
Type of activity <b>Pulp and mechanical wood pulp production</b>	по ОКВЭД	<b>21.11</b>	
Legal form / Status of property <b>JSC</b>	по ОКОПФ / ОКФС	<b>47</b>	<b>34</b>
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)	по ОКЕИ	<b>384/385</b>	
Location (address) <b>Pitkäranta, 186810 Karelia, RUSSIA</b>			

INDICATOR	Line	Reporting period	The period one year before reporting
1	2	3	4
<b>OPERATING INCOME AND COSTS</b>			
Total sales	010	1 027 269	843 180
Costs of manufacture	020	- 977 119	- 908 473
Gross profit	029	50 150	65 293
Selling costs	030	- 13 372	- 15 713
Administrative costs	040		- 1 119
Operating profit (loss)	050	36 778	- 82 125
<b>OTHER INCOME AND COSTS</b>			
Financial income	060	93	82
Financial costs	070	- 8 415	- 5 434
Interest in earnings of associate companies	080	4	-
Other operating income	090	11 578	13 689
Other operating costs	100	- 34 245	- 41 683
Non-sales income	120		
Non-sales costs	130		
<b>PROFIT (LOSS) BEFORE TAX</b>	140	5 793	- 115 471
Deffered taxes	141	2 033	29 823
Deffered tax liabilities	142	- 5 305	- 5 564
Income tax	150	- 69	-
Income tax from previous periods	151	- 501	- 81
Write-off deffered taxes and tax liabilities	152	- 164	8 017
Extraordinary costs	180		- 49
<b>NET PROFIT (LOSS)</b>	190	1 787	- 83 325
notes:			
Fixed tax liabilities	200	3 167	3 453
Earnings per share	201		
Losses per share	202		

## **Appendix 4. Financial statements of the SPPM (2004-2006)**

# BALANCE SHEET

as of 31st of December 2004 г.

		<b>CODES</b>	
		<b>0710001</b>	
Форма № 1 по ОКУД		<b>2004</b>	<b>12 31</b>
Дата (год, м-ц, число)			
по ОКПО		<b>51321438</b>	
ИНН		<b>1006004155</b>	
по ОКВЭД		<b>21.11, 21.12</b>	
по ОКОПФ / ОКФС		<b>47</b>	<b>34</b>
по ОКЕИ		<b>384/385</b>	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)			
Location (address) <b>Segezha, Zavodskaya st. 1, 186420 Karelia RUSSIA</b>			
		Approval date	<b>10.03.2005</b>
		Submission date	<b>10.03.2005</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	95	80
Fixed assets	120	1 474 811	3 404 002
Construction in progress	130	493 073	328 466
Financial investments in tangible assets	135		
Long-term financial receivables	140	122 799	116 293
Deferred tax assets	145		60 352
Other noncurrent assets	150		
<b>TOTAL part I</b>	190	2 090 778	3 909 193
<b>II. CURRENT ASSETS</b>			
Inventories	210	712 444	675 660
including:			
raw materials and similar valuables	211	493 940	505 847
animals	212		
goods in process	213	71 836	47 237
finished commodities and goods for reselling	214	133 915	116 459
commodities shipped to customers	215	-	2 184
deferrals	216	12 753	3 933
other inventories	217		
VAT on purchased goods	220	189 897	139 888
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231		
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	1 010 401	1 272 327
including:			
from customers	241	668 416	686 621
bills receivable	242	2 153	2 153
from associated companies	243		
from shareholders	244		
advances to clients	245	80 933	52 103
other debtors	246	258 899	531 450
Short-term financial receivables	250	154 793	177 297
Cash and cash equivalents	260	1 360 296	1 678 855
Other current assets	270		
<b>TOTAL part II</b>	290	3 427 831	3 944 027
<b>BALANCE</b>	300	5 518 609	7 853 220
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	537 200	537 200
Treasury shares	411		
Additional paid-in capital	420	676 413	656 490
Reserved capital	430	31 979	31 979
including:			
reserves created according to the regulation	431	31 979	31 979
reserves created according to the constituent instruments	432		
Target financing	450		18
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	953 302	702 985
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	2 198 894	1 928 672
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	1 780 637	2 155 226
Deferred tax liabilities	515	17 624	22 282
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	1 798 261	2 177 508
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	852 500	1 397 947
Accounts payable	620	663 787	2 318 755
including:			
to suppliers	621	377 853	2 213 116
bills payable	622		
to associated companies	623		
to personnel	624	9 893	11 480
to state and non-budget funds	625	4 911	4 058
to tax service	626	70 822	22 513
advances from customers	627		
to other creditors	628	200 308	67 588
Liabilities to founders	630	66	6 436
Deferred income	640		
Reserves of future expenses	650	5 101	23 902
Other current liabilities	660		
<b>TOTAL part V</b>	690	1 521 454	3 747 040
<b>BALANCE</b>	700	5 518 609	7 853 220

# INCOME STATEMENT

as for 12 months of 2004 4 г.

				<b>CODES</b>		
				<b>0710002</b>		
Форма № 2 по ОКУД				<b>2004</b>	<b>12</b>	<b>31</b>
Дата (год, м-ц, число)						
Company <b>Segezha Paper and Pulp Mill</b>				по ОКПО <b>51321438</b>		
Taxpayer ID				ИНН <b>1006004155</b>		
Type of activity <b>paper production</b>				по ОКВЭД <b>21.11, 21.12</b>		
Legal form / Status of property <b>JSC</b>						
				<b>47</b>	<b>34</b>	
				по ОКОПФ / ОКФС		
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)				по ОКЕИ <b>384/385</b>		
Location (address) <b>Segezha, Zavodskaya st. 1, 186420 Karelia RUSSIA</b>						
<b>INDICATOR</b>		<b>Line</b>	<b>Reporting period</b>	<b>The period one year before reporting</b>		
<b>1</b>		<b>2</b>	<b>3</b>	<b>4</b>		
<b>OPERATING INCOME AND COSTS</b>						
Total sales		010	4 091 711	4 059 460		
Costs of manufacture		020	- 3 548 309	-	3 471 344	
Gross profit		029	543 402	588 116		
Selling costs		030	- 149 212	-	146 918	
Administrative costs		040	- 219 880	-	199 609	
Operating profit (loss)		050	174 310	241 589		
<b>OTHER INCOME AND COSTS</b>						
Financial income		060	1 210	471		
Financial costs		070	- 146 769	-	122 082	
Interest in earnings of associate companies		080	1 135	258		
Other operating income		090	2 138 902	1 904 530		
Other operating costs		100	- 2 255 764	-	1 955 284	
Non-sales income		120	552 133	261 535		
Non-sales costs		130	- 784 432	-	309 101	
<b>PROFIT (LOSS) BEFORE TAX</b>		140	- 319 275	21 916		
Deffered taxes		141	58 700	-		
Deffered tax liabilities		142	- 4 658	-	17 624	
Income tax		150		-	173	
Income tax from previous periods		151				
Write-off deffered taxes and tax liabilities		152				
Extraordinary costs		180				
<b>NET PROFIT (LOSS)</b>		190	- 265 233	4 119		
notes:						
Fixed tax liabilities		200	- 22 583	-	15 972	
Earnings per share		201	0,494	0,011		
Losses per share		202				

# BALANCE SHEET

as of 31st of December 2005 г.

		<b>CODES</b>	
		<b>0710001</b>	
		Форма № 1 по ОКУД	
		Дата (год, м-ц, число)	<b>2005 12 31</b>
Company <b>Segezha Paper and Pulp Mill</b>		по ОКПО	<b>51321438</b>
Taxpayer ID		ИНН	<b>1006004155</b>
Type of activity <b>paper production</b>		по ОКВЭД	<b>21.11, 21.12</b>
Legal form / Status of property <b>JSC</b>			
		по ОКОПФ / ОКФС	<b>47 34</b>
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	<b>384/385</b>
Location (address) <b>Segezha, Zavodskaya st. 1, 186420 Karelia RUSSIA</b>			
		Approval date	<b>10.03.2006</b>
		Submission date	<b>10.03.2006</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	80	65
Fixed assets	120	3 404 002	3 789 523
Construction in progress	130	328 466	486 880
Financial investments in tangible assets	135	-	-
Long-term financial receivables	140	116 293	116 253
Deferred tax assets	145	60 352	117 402
Other noncurrent assets	150	-	-
<b>TOTAL part I</b>	190	3 909 193	4 510 123
<b>II. CURRENT ASSETS</b>			
Inventories	210	675 660	863 140
including:			
raw materials and similar valuables	211	505 847	533 291
animals	212	-	-
goods in process	213	47 237	79 790
finished commodities and goods for reselling	214	116 459	221 541
commodities shipped to customers	215	2 184	6 914
deferrals	216	3 933	21 604
other inventories	217	-	-
VAT on purchased goods	220	139 888	147 541
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231	-	-
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	-	-
other debtors	235	-	-



Accounts receivable (less than 12 months after reporting date)	240	1 272 327	1 251 343
including:			
from customers	241	686 621	1 251 343
bills receivable	242	2 153	-
from associated companies	243	-	-
from shareholders	244	-	-
advances to clients	245	52 103	-
other debtors	246	531 450	-
Short-term financial receivables	250	177 297	181 111
Cash and cash equivalents	260	1 678 855	109 481
Other current assets	270	-	-
<b>TOTAL part II</b>	290	3 944 027	2 552 616
<b>BALANCE</b>	300	7 853 220	7 062 739
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	537 200	537 200
Treasury shares	411	-	-
Additional paid-in capital	420	656 490	634 461
Reserved capital	430	31 979	31 979
including:		-	-
reserves created according to the regulation	431	31 979	31 979
reserves created according to the constituent instruments	432	-	-
Target financing	450	18	-
Surplus earnings of previous years	460	-	-
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	702 985	832 716
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	1 928 672	2 036 356
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	2 155 226	2 267 273
Deferred tax liabilities	515	22 282	77 847
Other long-term liabilities	520	-	-
<b>TOTAL part IV</b>	590	2 177 508	2 345 120
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	1 397 947	1 773 785
Accounts payable	620	2 318 755	863 914
including:			
to suppliers	621	2 213 116	693 843
bills payable	622	-	-
to associated companies	623	-	-
to personnel	624	11 480	12 344
to state and non-budget funds	625	4 058	1 801
to tax service	626	22 513	91 080
advances from customers	627	-	-
to other creditors	628	67 588	64 846
Liabilities to founders	630	6 436	6 426
Deferred income	640	-	19
Reserves of future expenses	650	23 902	37 108
Other current liabilities	660	-	11
<b>TOTAL part V</b>	690	3 747 040	2 681 263
<b>BALANCE</b>	700	7 853 220	7 062 739

# INCOME STATEMENT

as for 12 months of 200 5 г.

			<b>CODES</b>		
Форма № 2 по ОКУД			<b>0710002</b>		
Дата (год, м-ц, число)			<b>2005</b>	<b>12</b>	<b>31</b>
Company	<b>Segezha Paper and Pulp Mill</b>		по ОКПО <b>51321438</b>		
Taxpayer ID			ИНН <b>1006004155</b>		
Type of activity	<b>paper production</b>		по ОКВЭД <b>21.11, 21.12</b>		
Legal form / Status of property	<b>JSC</b>				
			по ОКОПФ / ОКФС		
			<b>47</b>	<b>34</b>	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)			по ОКЕИ <b>384/385</b>		
Location (address)			<b>Segezha, Zavodskaya st. 1, 186420 Karelia RUSSIA</b>		
<b>INDICATOR</b>		Line	Reporting period	The period one year before reporting	
1		2	3	4	
<b>OPERATING INCOME AND COSTS</b>					
Total sales		010	5 318 346	4 091 711	
Costs of manufacture		020	- 4 587 860	-	3 548 309
Gross profit		029	730 486	543 402	
Selling costs		030	- 169 628	-	149 212
Administrative costs		040	- 256 491	-	219 880
Operating profit (loss)		050	304 367	174 310	
<b>OTHER INCOME AND COSTS</b>					
Financial income		060	4 794	1 210	
Financial costs		070	- 228 917	-	146 769
Interest in earnings of associate companies		080	856	1 135	
Other operating income		090	3 019 314	2 138 902	
Other operating costs		100	- 2 994 047	-	2 255 764
Non-sales income		120	-	552 133	
Non-sales costs		130	-	-	784 432
<b>PROFIT (LOSS) BEFORE TAX</b>		140	106 367	-	319 275
Deffered taxes		141	57 050	58 700	
Deffered tax liabilities		142	- 55 565	-	4 658
Income tax		150	-	-	
Income tax from previous periods		151	-	-	
Write-off deffered taxes and tax liabilities		152	-	-	
Extraordinary costs		180	-	-	
<b>NET PROFIT (LOSS)</b>		190	107 852	-	265 233
notes:					
Fixed tax liabilities		200	22 759	-	22 583
Earnings per share		201	-	0,494	
Losses per share		202	-	-	

# BALANCE SHEET

as of 31st of December 2006 г.

		<b>CODES</b>	
		<b>0710001</b>	
Форма № 1 по ОКУД		<b>2006</b>	<b>12</b>
Дата (год, м-ц, число)		<b>31</b>	
Company <b>Segezha Paper and Pulp Mill</b>	по ОКПО	<b>51321438</b>	
Taxpayer ID	ИНН	<b>1006004155</b>	
Type of activity <b>paper production</b>	по ОКВЭД	<b>21.11, 21.12</b>	
Legal form / Status of property <b>JSC</b>		<b>47</b>	<b>34</b>
	по ОКОПФ / ОКФС	<b>384/385</b>	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)	по ОКЕИ		
Location (address) <b>Segezha, Zavodskaya st. 1, 186420 Karelia RUSSIA</b>			
		Approval date	<b>10.03.2007</b>
		Submission date	<b>10.03.2007</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	65	51
Fixed assets	120	3 789 523	4 096 183
Construction in progress	130	486 880	282 029
Financial investments in tangible assets	135	-	-
Long-term financial receivables	140	116 253	4 557 870
Deferred tax assets	145	117 402	205 760
Other noncurrent assets	150	-	-
<b>TOTAL part I</b>	<b>190</b>	<b>4 510 123</b>	<b>9 141 893</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	863 140	847 104
including:			
raw materials and similar valuables	211	533 291	536 109
animals	212	-	-
goods in process	213	79 790	85 260
finished commodities and goods for reselling	214	221 541	191 480
commodities shipped to customers	215	6 914	5 873
deferrals	216	21 604	28 382
other inventories	217	-	-
VAT on purchased goods	220	147 541	83 016
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231		
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	1 251 343	1 457 996
including:			
from customers	241	1 251 343	1 457 996
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246		
Short-term financial receivables	250	181 111	171 614
Cash and cash equivalents	260	109 481	119 700
Other current assets	270		
<b>TOTAL part II</b>	290	2 552 616	2 679 430
<b>BALANCE</b>	300	7 062 739	11 821 323
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	537 200	537 200
Treasury shares	411		
Additional paid-in capital	420	634 461	630 728
Reserved capital	430	31 979	31 979
including:			
reserves created according to the regulation	431	31 979	31 979
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	832 716	1 886 775
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	2 036 356	3 086 682
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	2 267 273	4 024 341
Deferred tax liabilities	515	77 847	100 674
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	2 345 120	4 125 015
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	1 773 785	2 455 492
Accounts payable	620	863 914	2 114 126
including:			
to suppliers	621	693 843	750 048
bills payable	622		
to associated companies	623		
to personnel	624	12 344	25 308
to state and non-budget funds	625	1 801	5 934
to tax service	626	91 080	95 431
advances from customers	627		
to other creditors	628	64 846	1 237 405
Liabilities to founders	630	6 426	-
Deferred income	640	19	42
Reserves of future expenses	650	37 108	39 960
Other current liabilities	660	11	6
<b>TOTAL part V</b>	690	2 681 263	4 609 626
<b>BALANCE</b>	700	7 062 739	11 821 323

INCOME STATEMENT			
as for 12 months of 200 6 г.			
			<div> <div>FORMA № 2 ПО ОКУД</div> <div>0710002</div> </div>
Дата (год, м-ц, число)			<div> <div>2006</div> <div>12</div> <div>31</div> </div>
Company	Segezha Paper and Pulp Mill	по ОКПО	51321438
Taxpayer ID		ИНН	1006004155
Type of activity	paper production	по ОКВЭД	21.11, 21.12
Legal form / Status of property	JSC		
			<div> <div>по ОКОПФ / ОКФС</div> <div>47</div> <div>34</div> </div>
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	384/385
Location (address) Segezha, Zavodskaya st. 1, 186420 Karelia RUSSIA			
INDICATOR	Line	Reporting period	The period one year before reporting
1	2	3	4
OPERATING INCOME AND COSTS			
Total sales	010	6 177 849	5 318 346
Costs of manufacture	020	- 5 484 346	- 4 587 860
Gross profit	029	693 503	730 486
Selling costs	030	- 225 795	- 169 628
Administrative costs	040	- 293 804	- 256 491
Operating profit (loss)	050	173 904	304 367
OTHER INCOME AND COSTS			
Financial income	060	6 493	4 794
Financial costs	070	- 405 658	- 228 917
Interest in earnings of associate companies	080	256	856
Other operating income	090	5 547 041	3 019 314
Other operating costs	100	- 4 337 008	- 2 994 047
Non-sales income	120		
Non-sales costs	130		
PROFIT (LOSS) BEFORE TAX	140	985 028	106 367
Deffered taxes	141	88 357	57 050
Deffered tax liabilities	142	- 22 827	- 55 565
Income tax	150		
Income tax from previous periods	151		
Write-off deffered taxes and tax liabilities	152		
Extraordinary costs	180	- 60	-
NET PROFIT (LOSS)	190	1 050 498	107 852
notes:			
Fixed tax liabilities	200	- 65 530	22 759
Earnings per share	201	2,000	-
Losses per share	202		

## **Appendix 5. Financial statements of the SWPM (2004-2006)**

# BALANCE SHEET

as of 31st of December 2004 г.

		<b>CODES</b>		
		<b>0710001</b>		
Форма № 1 по ОКУД		<b>2004</b>	<b>12</b>	<b>31</b>
Дата (год, м-ц, число)				
по ОКПО		<b>51531747</b>		
ИНН		<b>1101051331</b>		
по ОКВЭД		<b>15210,15290,51500</b>		
по ОКОПФ / ОКФС		<b>47</b>	<b>30</b>	
по ОКЕИ		<b>384/385</b>		
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)				
Location (address) <b>167009 RUSSIA, KOMI, Syktyvkar Lesozavodskaya st.15</b>				
Approval date <b>31.03.2005</b>				
Submission date <b>31.03.2005</b>				
<b>ASSETS</b>	Line	Opening balance	Closing balance	
1	2	3	4	
<b>I. FIXED AND NONCURRENT ASSETS</b>				
Intangible assets	110	130	18	
Fixed assets	120	69 161	75 792	
Construction in progress	130	1 987	480	
Financial investments in tangible assets	135			
Long-term financial receivables	140	50 200	50 200	
Deferred tax assets	145	122	373	
Other noncurrent assets	150		2	
<b>TOTAL part I</b>	190	121 600	126 865	
<b>II. CURRENT ASSETS</b>				
Inventories	210	70 702	70 029	
including:				
raw materials and similar valuables	211	14 460	20 513	
animals	212			
goods in process	213	8 228	4 138	
finished commodities and goods for reselling	214	15 455	18 659	
commodities shipped to customers	215	32 517	26 628	
deferrals	216	42	91	
other inventories	217			
VAT on purchased goods	220	10 579	9 412	
Accounts receivable (more than 12 months after reporting date)	230	-	-	
including:				
from customers	231			
bills receivable	232			
from associated companies	233			
advances to clients	234			
other debtors	235			

Accounts receivable (less than 12 months after reporting date)	240	34 206	17 425
including:			
from customers	241	17 072	12 175
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246	17 134	5 250
Short-term financial receivables	250	100	8 100
Cash and cash equivalents	260	2 241	6 062
Other current assets	270	32 261	32 002
<b>TOTAL part II</b>	290	150 089	143 030
<b>BALANCE</b>	300	271 689	269 895
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	110 000	110 000
Treasury shares	411		
Additional paid-in capital	420	25	25
Reserved capital	430	-	-
including:			
reserves created according to the regulation	431		
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470		5 316
Uncovered losses of the current year	475	15 930	
<b>TOTAL part III</b>	490	94 095	115 341
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	48 722	123 850
Deferred tax liabilities	515		
Other long-term liabilities	520		
<b>TOTAL part IV</b>	590	48 722	123 850
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	55 890	
Accounts payable	620	68 066	28 825
including:			
to suppliers	621	57 299	5 256
bills payable	622		
to associated companies	623		
to personnel	624	5 302	5 049
to state and non-budget funds	625	1 850	1 756
to tax service	626	3 348	2 458
advances from customers	627		
to other creditors	628	267	14 306
Liabilities to founders	630		
Deferred income	640		
Reserves of future expenses	650		
Other current liabilities	660	4 916	1 879
<b>TOTAL part V</b>	690	128 872	30 704
<b>BALANCE</b>	700	271 689	269 895



# INCOME STATEMENT

as for 12 months of 200 4 г.

		Форма № 2 по ОКУД		CODES	
		Дата (год, м-ц, число)		0710002	
Company <u>JSC "Syktyvkar Wood Processing Mill"</u>		по ОКПО		2004 12 31	
Taxpayer ID		ИНН		51531747	
Type of activity <u>wood processing and other similar activities</u>		по ОКВЭД		1101051331	
Legal form / Status of property <u>JSC</u>				15210,15290,51500	
		по ОКОПФ / ОКФС		47 30	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ		384/385	
Location (address) <u>167009 RUSSIA, KOMI, Syktyvkar Lesozavodskaya st.15</u>					
INDICATOR	Line	Reporting period	The period one year before reporting		
1	2	3	4		
<b>OPERATING INCOME AND COSTS</b>					
Total sales	010	532 401	424 011		
Costs of manufacture	020	- 366 119	- 292 311		
Gross profit	029	166 282	131 700		
Selling costs	030	- 59 203	- 47 431		
Administrative costs	040	- 58 194	- 51 025		
Operating profit (loss)	050	48 885	33 244		
<b>OTHER INCOME AND COSTS</b>					
Financial income	060				
Financial costs	070				
Interest in earnings of associate companies	080				
Other operating income	090	4 125	3 523		
Other operating costs	100	- 11 705	- 20 102		
Non-sales income	120	3 494	22 778		
Non-sales costs	130	- 15 121	- 30 969		
<b>PROFIT (LOSS) BEFORE TAX</b>					
Deffered taxes	141	- 373	- 122		
Deffered tax liabilities	142				
Income tax	150	- 6 265	- 7 374		
Income tax from previous periods	151				
Write-off deffered taxes and tax liabilities	152				
Extraordinary costs	180				
<b>NET PROFIT (LOSS)</b>					
	190	23 040	978		
notes:					
Fixed tax liabilities	200				
Earnings per share	201				
Losses per share	202				

# BALANCE SHEET

as of 31st of December 200 5 r.

		<b>CODES</b>	
		<b>0710001</b>	
Форма № 1 по ОКУД		<b>2005</b>	<b>12</b> <b>31</b>
Дата (год, м-ц, число)			
по ОКПО		<b>51531747</b>	
Company <b>JSC "Syktyvkar Wood Processing Mill"</b>	ИНН	<b>1101051331</b>	
Taxpayer ID	по ОКВЭД	<b>15210,15290,51500</b>	
Type of activity <b>wood processing and other similar activities</b>	по ОКФС	<b>47</b>	<b>30</b>
Legal form / Status of property <b>JSC</b>	по ОКЕИ	<b>384/385</b>	
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)			
Location (address) <b>167009 RUSSIA, KOMI, Syktyvkar Lesozavodskaya st.15</b>			
		Approval date	<b>31.03.2006</b>
		Submission date	<b>31.03.2006</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110	18	-
Fixed assets	120	75 792	70 411
Construction in progress	130	480	1 579
Financial investments in tangible assets	135	-	-
Long-term financial receivables	140	50 200	50 200
Deferred tax assets	145	373	619
Other noncurrent assets	150	2	-
<b>TOTAL part I</b>	<b>190</b>	<b>126 865</b>	<b>122 809</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	70 029	40 197
including:			
raw materials and similar valuables	211	20 513	22 882
animals	212	-	-
goods in process	213	4 138	3 621
finished commodities and goods for reselling	214	18 659	9 274
commodities shipped to customers	215	26 628	-
deferrals	216	91	4 420
other inventories	217	-	-
VAT on purchased goods	220	9 412	9 641
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231	-	-
bills receivable	232	-	-
from associated companies	233	-	-
advances to clients	234	-	-
other debtors	235	-	-

Accounts receivable (less than 12 months after reporting date)	240	17 425	137 997
including:			
from customers	241	12 175	70 632
bills receivable	242	-	-
from associated companies	243	-	-
from shareholders	244	-	-
advances to clients	245	-	-
other debtors	246	5 250	67 365
Short-term financial receivables	250	8 100	76 207
Cash and cash equivalents	260	6 062	13 692
Other current assets	270	32 002	-
<b>TOTAL part II</b>	290	143 030	277 734
<b>BALANCE</b>	300	269 895	400 543
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	110 000	110 000
Treasury shares	411	-	-
Additional paid-in capital	420	25	25
Reserved capital	430	-	-
including:		-	-
reserves created according to the regulation	431	-	-
reserves created according to the constituent instruments	432	-	-
Target financing	450	-	-
Surplus earnings of previous years	460	-	-
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	5 316	8 898
Uncovered losses of the current year	475	-	-
<b>TOTAL part III</b>	490	115 341	118 923
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	123 850	98 569
Deferred tax liabilities	515	-	-
Other long-term liabilities	520	-	-
<b>TOTAL part IV</b>	590	123 850	98 569
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	-	63 263
Accounts payable	620	28 825	116 403
including:			
to suppliers	621	5 256	65 012
bills payable	622	-	-
to associated companies	623	-	-
to personnel	624	5 049	4 983
to state and non-budget funds	625	1 756	1 625
to tax service	626	2 458	3 373
advances from customers	627	-	-
to other creditors	628	14 306	41 410
Liabilities to founders	630	-	-
Deferred income	640	-	-
Reserves of future expenses	650	-	-
Other current liabilities	660	1 879	3 385
<b>TOTAL part V</b>	690	30 704	183 051
<b>BALANCE</b>	700	269 895	400 543

# INCOME STATEMENT

as for 12 months of 200 5 г.

		Форма № 2 по ОКУД		CODES	
		Дата (год, м-ц, число)		0710002	
Company	JSC "Syktyvkar Wood Processing Mill"	по ОКПО	51531747	2005	12 31
Taxpayer ID		ИНН	1101051331		
Type of activity	wood processing and other similar activities	по ОКВЭД	15210,15290,51500		
Legal form / Status of property	JSC				
		по ОКОПФ / ОКФС	47 30		
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	384/385		
Location (address)	167009 RUSSIA, KOMI, Syktyvkar Lesozavodskaya st.15				
INDICATOR	Line	Reporting period	The period one year before reporting		
1	2	3	4		
<b>OPERATING INCOME AND COSTS</b>					
Total sales	010	578 799	532 401		
Costs of manufacture	020	- 443 306	- 366 119		
Gross profit	029	135 493	166 282		
Selling costs	030	- 52 695	- 59 203		
Administrative costs	040	- 59 833	- 58 194		
Operating profit (loss)	050	22 965	48 885		
<b>OTHER INCOME AND COSTS</b>					
Financial income	060	-	-		
Financial costs	070	-	-		
Interest in earnings of associate companies	080	-	-		
Other operating income	090	17 282	4 125		
Other operating costs	100	- 35 651	- 11 705		
Non-sales income	120	-	3 494		
Non-sales costs	130	-	- 15 121		
<b>PROFIT (LOSS) BEFORE TAX</b>					
Deffered taxes	141	- 246	- 373		
Deffered tax liabilities	142	-	-		
Income tax	150	- 1 012	- 6 265		
Income tax from previous periods	151	-	-		
Write-off deffered taxes and tax liabilities	152	-	-		
Extraordinary costs	180	-	-		
<b>NET PROFIT (LOSS)</b>					
	190	3 338	23 040		
notes:					
Fixed tax liabilities	200	-	-		
Earnings per share	201	-	-		
Losses per share	202	-	-		

# BALANCE SHEET

as of 31st of December 2006 г.

		<b>CODES</b>	
		<b>0710001</b>	
Форма № 1 по ОКУД			
Дата (год, м-ц, число)		<b>2006</b>	<b>12</b> <b>31</b>
Company <b>JSC "Syktyvkar Wood Processing Mill"</b>	по ОКПО	<b>51531747</b>	
Taxpayer ID	ИНН	<b>1101051331</b>	
Type of activity <b>wood processing and other similar activities</b>	по ОКВЭД	<b>15210,15290,51500</b>	
Legal form / Status of property <b>JSC</b>			
	по ОКОПФ / ОКФС	<b>47</b>	<b>30</b>
Units: thousands RUR / <del>millions</del> RUR (cross-out unnecessary)	по ОКЕИ	<b>384/385</b>	
Location (address) <b>167009 RUSSIA, KOMI, Syktyvkar Lesozavodskaya st.15</b>			
		Approval date	<b>31.03.2007</b>
		Submission date	<b>31.03.2007</b>
<b>ASSETS</b>	Line	Opening balance	Closing balance
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110		8
Fixed assets	120	70 411	164 509
Construction in progress	130	1 579	78 908
Financial investments in tangible assets	135		
Long-term financial receivables	140	50 200	
Deferred tax assets	145	619	
Other noncurrent assets	150		274
<b>TOTAL part I</b>	<b>190</b>	<b>122 809</b>	<b>243 699</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	40 197	67 194
including:			
raw materials and similar valuables	211	22 882	36 245
animals	212		
goods in process	213	3 621	19 593
finished commodities and goods for reselling	214	9 274	5 158
commodities shipped to customers	215		
deferrals	216	4 420	6 198
other inventories	217		
VAT on purchased goods	220	9 641	11 833
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231		
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	137 997	183 947
including:			
from customers	241	70 632	97 519
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246	67 365	86 428
Short-term financial receivables	250	76 207	37 689
Cash and cash equivalents	260	13 692	7 209
Other current assets	270		1
<b>TOTAL part II</b>	290	277 734	307 873
<b>BALANCE</b>	300	400 543	551 572
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	110 000	110 000
Treasury shares	411		
Additional paid-in capital	420	25	25
Reserved capital	430	-	-
including:			
reserves created according to the regulation	431		
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	8 898	8 401
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	118 923	118 426
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	98 569	209 501
Deferred tax liabilities	515		572
Other long-term liabilities	520		72 011
<b>TOTAL part IV</b>	590	98 569	282 084
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	63 263	73 060
Accounts payable	620	116 403	78 002
including:			
to suppliers	621	65 012	60 293
bills payable	622		
to associated companies	623		
to personnel	624	4 983	7 824
to state and non-budget funds	625	1 625	2 653
to tax service	626	3 373	3 128
advances from customers	627		
to other creditors	628	41 410	4 104
Liabilities to founders	630		
Deferred income	640		
Reserves of future expenses	650		
Other current liabilities	660	3 385	
<b>TOTAL part V</b>	690	183 051	151 062
<b>BALANCE</b>	700	400 543	551 572

# INCOME STATEMENT

as for 12 months of 200 6 г.

		Форма № 2 по ОКУД		CODES	
		Дата (год, м-ц, число)		0710002	
Company	JSC "Syktyvkar Wood Processing Mill"	по ОКПО	2006	12	31
Taxpayer ID		ИНН	51531747		
Type of activity	wood processing and other similar activities	по ОКВЭД	1101051331		
Legal form / Status of property	JSC		15210,15290,51500		
		по ОКОПФ / ОКФС	47	30	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ	384/385		
Location (address)	167009 RUSSIA, KOMI, Syktyvkar Lesozavodskaya st.15				
INDICATOR	Line	Reporting period	The period one year before reporting		
1	2	3	4		
OPERATING INCOME AND COSTS					
Total sales	010	607 862	578 799		
Costs of manufacture	020	- 500 901	- 443 306		
Gross profit	029	106 961	135 493		
Selling costs	030	- 35 093	- 52 695		
Administrative costs	040	- 40 544	- 59 833		
Operating profit (loss)	050	31 324	22 965		
OTHER INCOME AND COSTS					
Financial income	060				
Financial costs	070	- 21 756			
Interest in earnings of associate companies	080				
Other operating income	090	794 868	17 282		
Other operating costs	100	- 802 921	- 35 651		
Non-sales income	120				
Non-sales costs	130				
PROFIT (LOSS) BEFORE TAX					
Deffered taxes	141		- 246		
Deffered tax liabilities	142	- 572			
Income tax	150	- 125	- 1 012		
Income tax from previous periods	151	- 695			
Write-off deffered taxes and tax liabilities	152				
Extraordinary costs	180				
NET PROFIT (LOSS)					
	190	123	3 338		
notes:					
Fixed tax liabilities	200				
Earnings per share	201				
Losses per share	202				

## **Appendix 6. Financial statements of the KTC (2004-2006)**



# BALANCE SHEET

as of 31st of December 200 4 г.

Форма № 1 по ОКУД		<b>CODES</b>	
Дата (год, м-ц, число)		<b>0710001</b>	
Company <b>Koigorodok Timber Company LTD</b>	по ОКПО	<b>2004</b>	<b>12 31</b>
Taxpayer ID	ИНН	<b>44779065</b>	
Type of activity <b>production and realization of timber</b>	по ОКВЭД	<b>1111001594</b>	
Legal form / Status of property		<b>02.01.1</b>	
	по ОКФС / ОКФС	<b>65</b>	<b>16</b>
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)	по ОКЕИ	<b>384</b>	
Location (address) <b>RUSSIA, KOMI, Koigorodok municip., Koydin</b>			
Approval date			
Submission date		<b>31.03.2005</b>	

ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110		
Fixed assets	120	11 959	28 715
Construction in progress	130	14 763	20 669
Financial investments in tangible assets	135		
Long-term financial receivables	140		
Deferred tax assets	145	5 627	15 617
Other noncurrent assets	150		
<b>TOTAL part I</b>	190	32 349	65 001
<b>II. CURRENT ASSETS</b>			
Inventories	210	29 421	32 139
including:			
raw materials and similar valuables	211	4 572	6 289
animals	212		
goods in process	213	11 137	3 329
finished commodities and goods for reselling	214	6 897	10 763
commodities shipped to customers	215		
deferrals	216	6 815	11 758
other inventories	217		
VAT on purchased goods	220	4 019	11 149
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231		
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	11 970	13 204
including:			
from customers	241	4 856	7 273
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246	7 114	5 931
Short-term financial receivables	250		
Cash and cash equivalents	260	302	3 133
Other current assets	270	1	
<b>TOTAL part II</b>	290	45 713	59 625
<b>BALANCE</b>	300	78 062	124 626
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	10	10
Treasury shares	411		
Additional paid-in capital	420	12 069	12 069
Reserved capital	430	-	-
including:			
reserves created according to the regulation	431		
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470	5 421	730
Uncovered losses of the current year	475		
<b>TOTAL part III</b>	490	17 500	12 809
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510		
Deferred tax liabilities	515	8 923	18 048
Other long-term liabilities	520		8 479
<b>TOTAL part IV</b>	590	8 923	26 527
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	7 260	
Accounts payable	620	36 697	67 607
including:			
to suppliers	621	20 878	48 051
bills payable	622		
to associated companies	623		
to personnel	624	4 295	3 449
to state and non-budget funds	625	1 562	1 299
to tax service	626	3 158	3 395
advances from customers	627		
to other creditors	628	6 804	11 413
Liabilities to founders	630		
Deferred income	640	7 682	17 682
Reserves of future expenses	650		
Other current liabilities	660		1
<b>TOTAL part V</b>	690	51 639	85 290
<b>BALANCE</b>	700	78 062	124 626

# INCOME STATEMENT

as for 12 months of 2004 4 г.

		<b>КОДЕС</b>	
		<b>0710002</b>	
Форма № 2 по ОКУД		<b>2004</b>	<b>12</b>
Дата (год, м-ц, число)		<b>31</b>	
по ОКПО		<b>44779065</b>	
ИНН		<b>1111001594</b>	
по ОКВЭД		<b>02.01.1</b>	
по ОКОПФ / ОКФС		<b>65</b>	<b>16</b>
по ОКЕИ		<b>384</b>	
Company <b>Koigorodok Timber Company LTD</b> Taxpayer ID _____ Type of activity <b>production and realization of timber</b> Legal form / Status of property _____ Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary) Location (address) <b>RUSSIA, KOMI, Koigorodok municip., Koydin</b>			
INDICATOR	Line	Reporting period	The period one year before reporting
1	2	3	4
<b>OPERATING INCOME AND COSTS</b>			
Total sales	010	152 944	158 442
Costs of manufacture	020	- 139 106	- 144 622
Gross profit	029	13 838	13 820
Selling costs	030	- 2 380	- 2 507
Administrative costs	040	- 13 776	- 13 111
Operating profit (loss)	050	- 2 318	- 1 798
<b>OTHER INCOME AND COSTS</b>			
Financial income	060		
Financial costs	070	- 160	- 752
Interest in earnings of associate companies	080		
Other operating income	090	2 439	417
Other operating costs	100	- 1 741	- 1 788
Non-sales income	120	513	3 372
Non-sales costs	130	- 3 154	- 3 395
<b>PROFIT (LOSS) BEFORE TAX</b>	140	- 4 421	- 3 944
Deffered taxes	141	9 991	5 627
Deffered tax liabilities	142	- 9 125	- 8 923
Income tax	150	- 594	- 164
Income tax from previous periods	151	- 542	
Write-off deffered taxes and tax liabilities	152		2 253
Extraordinary costs	180		
<b>NET PROFIT (LOSS)</b>	190	- 4 691	- 5 151
notes:			
Fixed tax liabilities	200	790	3 460
Earnings per share	201		
Losses per share	202		

## as of 31st of December 2005 r.

154

Accounts receivable (less than 12 months after reporting date)	240	13 204	24 384
including:			
from customers	241	7 273	21 860
bills receivable	242	-	-
from associated companies	243	-	-
from shareholders	244	-	-
advances to clients	245	-	-
other debtors	246	5 931	2 524
Short-term financial receivables	250	-	-
Cash and cash equivalents	260	3 133	283
Other current assets	270	-	-
<b>TOTAL part II</b>	290	59 625	69 846
<b>BALANCE</b>	300	124 626	259 419
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	10	54 463
Treasury shares	411	-	-
Additional paid-in capital	420	12 069	12 312
Reserved capital	430	-	145
including:		-	-
reserves created according to the regulation	431	-	145
reserves created according to the constituent instruments	432	-	-
Target financing	450	-	-
Surplus earnings of previous years	460	-	-
Uncovered losses of previous years	465	-	-
Surplus earnings of the current year	470	730	-
Uncovered losses of the current year	475	-	33 799
<b>TOTAL part III</b>	490	12 809	33 121
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510	-	-
Deferred tax liabilities	515	18 048	19 367
Other long-term liabilities	520	8 479	73 084
<b>TOTAL part IV</b>	590	26 527	92 451
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	-	5 000
Accounts payable	620	67 607	88 396
including:			
to suppliers	621	48 051	68 972
bills payable	622	-	-
to associated companies	623	-	-
to personnel	624	3 449	3 905
to state and non-budget funds	625	1 299	1 026
to tax service	626	3 395	1 436
advances from customers	627	-	-
to other creditors	628	11 413	13 057
Liabilities to founders	630	-	-
Deferred income	640	17 682	39 784
Reserves of future expenses	650	-	665
Other current liabilities	660	1	2
<b>TOTAL part V</b>	690	85 290	133 847
<b>BALANCE</b>	700	124 626	259 419

# INCOME STATEMENT

as for 12 months of 200 5 г.

		Форма № 2 по ОКУД		CODES	
		Дата (год, м-ц, число)		0710002	
Company <u>Koigorodok Timber Company LTD</u>		по ОКПО		2005 12 31	
Taxpayer ID		ИНН		44779065	
Type of activity <u>production and realization of timber</u>		по ОКВЭД		1111001594	
Legal form / Status of property		по ОКФС / ОКФС		02.01.1	
Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary)		по ОКЕИ		65 16	
Location (address) <u>RUSSIA, KOMI, Koigorodok municip., Koydin</u>				384	
INDICATOR	Line	Reporting period	The period one year before reporting		
1	2	3	4		
<b>OPERATING INCOME AND COSTS</b>					
Total sales	010	135 659	152 944		
Costs of manufacture	020	- 157 315	- 139 106		
Gross profit	029	- 21 656	13 838		
Selling costs	030	- 2 293	- 2 380		
Administrative costs	040	- 16 221	- 13 776		
Operating profit (loss)	050	- 40 170	- 2 318		
<b>OTHER INCOME AND COSTS</b>					
Financial income	060	5	-		
Financial costs	070	- 37	- 160		
Interest in earnings of associate companies	080	-	-		
Other operating income	090	7 041	2 439		
Other operating costs	100	- 7 540	- 1 741		
Non-sales income	120	-	513		
Non-sales costs	130	-	- 3 154		
<b>PROFIT (LOSS) BEFORE TAX</b>	140	- 40 701	- 4 421		
Deffered taxes	141	15 001	9 991		
Deffered tax liabilities	142	- 5 083	- 9 125		
Income tax	150	-	594		
Income tax from previous periods	151	-	542		
Write-off deffered taxes and tax liabilities	152	-	-		
Extraordinary costs	180	- 8	-		
<b>NET PROFIT (LOSS)</b>	190	- 30 791	- 4 691		
notes:					
Fixed tax liabilities	200	- 150	790		
Earnings per share	201	-	-		
Losses per share	202	-	-		

# BALANCE SHEET

as of 31st of December 2006 6 r.

		<b>CODES</b>		
		<b>0710001</b>		
Форма № 1 по ОКУД		<b>2006</b>	<b>12</b>	<b>31</b>
Дата (год, м-ц, число)				
Company <b>Koigorodok Timber Company LTD</b>	по ОКПО	<b>44779065</b>		
Taxpayer ID	ИНН	<b>1111001594</b>		
Type of activity <b>production and realization of timber</b>	по ОКВЭД	<b>02.01.1</b>		
Legal form / Status of property				
	по ОКОПФ / ОКФС	<b>65</b>	<b>16</b>	
Units: thousands RUR / millions RUR (cross-out unnecessary)	по ОКЕИ	<b>384</b>		
Location (address) <b>RUSSIA, KOMI, Koigorodok municip., Koydin</b>				

Approval date

Submission date

**31.03.2007**

ASSETS	Line	Opening balance	Closing balance
1	2	3	4
<b>I. FIXED AND NONCURRENT ASSETS</b>			
Intangible assets	110		
Fixed assets	120	101 565	112 520
Construction in progress	130	61 080	10 717
Financial investments in tangible assets	135	73	70
Long-term financial receivables	140		
Deferred tax assets	145	26 855	23 752
Other noncurrent assets	150		
<b>TOTAL part I</b>	<b>190</b>	<b>189 573</b>	<b>147 059</b>
<b>II. CURRENT ASSETS</b>			
Inventories	210	19 618	14 625
including:			
raw materials and similar valuables	211	7 825	6 125
animals	212		
goods in process	213	8 854	7 980
finished commodities and goods for reselling	214	1 796	217
commodities shipped to customers	215		
deferrals	216	1 143	303
other inventories	217		
VAT on purchased goods	220	25 561	15 700
Accounts receivable (more than 12 months after reporting date)	230	-	-
including:			
from customers	231		
bills receivable	232		
from associated companies	233		
advances to clients	234		
other debtors	235		

Accounts receivable (less than 12 months after reporting date)	240	24 384	14 984
including:			
from customers	241	21 860	8 494
bills receivable	242		
from associated companies	243		
from shareholders	244		
advances to clients	245		
other debtors	246	2 524	6 490
Short-term financial receivables	250		
Cash and cash equivalents	260	283	461
Other current assets	270		3
<b>TOTAL part II</b>	290	69 846	45 773
<b>BALANCE</b>	300	259 419	192 832
<b>LIABILITIES</b>	Line	Opening balance	Closing balance
1	2	3	4
<b>III. EQUITY</b>			
Share capital	410	54 463	71 818
Treasury shares	411		
Additional paid-in capital	420	12 312	20 790
Reserved capital	430	145	-
including:			
reserves created according to the regulation	431	145	
reserves created according to the constituent instruments	432		
Target financing	450		
Surplus earnings of previous years	460		
Uncovered losses of previous years	465		
Surplus earnings of the current year	470		
Uncovered losses of the current year	475	33 799	48 500
<b>TOTAL part III</b>	490	33 121	44 108
<b>IV. LONG-TERM LIABILITIES</b>			
Loans and borrowings	510		
Deferred tax liabilities	515	19 367	4 120
Other long-term liabilities	520	73 084	10 997
<b>TOTAL part IV</b>	590	92 451	15 117
<b>V. CURRENT LIABILITIES</b>			
Loans and borrowings	610	5 000	5 000
Accounts payable	620	88 396	105 470
including:			
to suppliers	621	68 972	43 716
bills payable	622		
to associated companies	623		
to personnel	624	3 905	3 631
to state and non-budget funds	625	1 026	888
to tax service	626	1 436	2 536
advances from customers	627		
to other creditors	628	13 057	54 699
Liabilities to founders	630		
Deferred income	640	39 784	
Reserves of future expenses	650	665	994
Other current liabilities	660	2	22 143
<b>TOTAL part V</b>	690	133 847	133 607
<b>BALANCE</b>	700	259 419	192 832



# INCOME STATEMENT

as for 12 months of 2006 6 г.

		<b>CODES</b>	
		<b>0710002</b>	
Форма № 2 по ОКУД		<b>2006</b>	<b>12 31</b>
Дата (год, м-ц, число)			
по ОКПО		<b>44779065</b>	
ИНН		<b>1111001594</b>	
по ОКВЭД		<b>02.01.1</b>	
по ОКОПФ / ОКФС		<b>65</b>	<b>16</b>
по ОКЕИ		<b>384</b>	
Company <b>Koigorodok Timber Company LTD</b> Taxpayer ID _____ Type of activity <b>production and realization of timber</b> Legal form / Status of property _____ Units: thousands RUR / <del>millions RUR</del> (cross-out unnecessary) Location (address) <b>RUSSIA, KOMI, Koigorodok municip., Koydin</b>			
INDICATOR	Line	Reporting period	The period one year before reporting
1	2	3	4
<b>OPERATING INCOME AND COSTS</b>			
Total sales	010	121 035	135 659
Costs of manufacture	020	- 151 885	- 157 315
Gross profit	029	- 30 850	- 21 656
Selling costs	030	- 779	- 2 293
Administrative costs	040	- 16 176	- 16 221
Operating profit (loss)	050	- 47 805	- 40 170
<b>OTHER INCOME AND COSTS</b>			
Financial income	060	1	5
Financial costs	070	- 256	- 37
Interest in earnings of associate companies	080		
Other operating income	090	68 283	7 041
Other operating costs	100	- 47 034	- 7 540
Non-sales income	120		
Non-sales costs	130		
<b>PROFIT (LOSS) BEFORE TAX</b>	140	- 26 811	- 40 701
Deffered taxes	141	15 247	15 001
Deffered tax liabilities	142	- 3 102	- 5 083
Income tax	150		
Income tax from previous periods	151		
Write-off deffered taxes and tax liabilities	152		
Extraordinary costs	180	- 180	- 8
<b>NET PROFIT (LOSS)</b>	190	- 14 846	- 30 791
notes:			
Fixed tax liabilities	200	- 5 710	- 150
Earnings per share	201		
Losses per share	202		

## Appendix 7. Historical currency exchange rates

<b>Date</b>	<b>Amount in SEK</b>		<b>Amount in RUR</b>
31.12.2004	1	=	4.2006
31.12.2005	1	=	3.6275
31.12.2006	1	=	3.8382

## Appendix 8. Original Russian accounting statements

БУХГАЛТЕРСКИЙ БАЛАНС		Приложение к приказу Министерства Финансов РФ от 22.07.2003 № 67н	
на _____ 200__ г.			
Форма № 1 по ОКУД		<b>КОДЫ</b>	
Дата (год, м-ц, число)		<b>0710001</b>	
Организация _____	по ОКПО		
Идентификационный номер налогоплательщика _____	ИНН		
Вид деятельности _____	по ОКВЭД		
Организационно-правовая форма / форма собственности _____	по ОКОПФ / ОКФС		
Единица измерения: тыс. руб. / млн. руб. (ненужное зачеркнуть)	по ОКЕИ	<b>384/385</b>	
Местонахождение (адрес) _____			
Дата утверждения _____			
Дата отправки (принятия) _____			
АКТИВ	Код показателя	На начало отчетного года	На конец отчетного периода
1	2	3	4
<b>I. ВНЕОБОРОТНЫЕ АКТИВЫ</b>			
Нематериальные активы	110	-	-
Основные средства	120	-	-
Незавершенное строительство	130	-	-
Доходные вложения в материальные ценности	135	-	-
Долгосрочные финансовые вложения	140	-	-
Отложенные финансовые активы	145	-	-
Прочие внеоборотные активы	150	-	-
<b>ИТОГО по разделу I</b>	190	-	-
<b>II. ОБОРОТНЫЕ АКТИВЫ</b>			
Запасы	210	-	-
в том числе:			
сырье, материалы и другие аналогичные ценности	211	-	-
животные на выращивании и откорме	212	-	-
затраты в незавершенном производстве	213	-	-
готовая продукция и товары для перепродажи	214	-	-
товары отгруженные	215	-	-
расходы будущих периодов	216	-	-
прочие запасы и затраты	217	-	-
Налог на добавленную стоимость по приобретенным ценностям	220	-	-
Дебиторская задолженность (платежи по которой ожидаются более чем через 12 месяцев после отчетной даты)	230	-	-
в том числе покупатели и заказчики		-	-
Дебиторская задолженность (платежи по которой ожидаются в течение 12 месяцев после отчетной даты)	240	-	-
в том числе покупатели и заказчики		-	-
Краткосрочные финансовые вложения	250	-	-
Денежные средства	260	-	-
Прочие оборотные активы	270	-	-
<b>ИТОГО по разделу II</b>	290	-	-
<b>БАЛАНС</b>	300	-	-

ПАССИВ	Код показателя	На начало отчетного года	На конец отчетного периода
<b>III. КАПИТАЛ И РЕЗЕРВЫ</b>			
Уставный капитал	410	-	-
Собственные акции, выкупленные у акционеров		-	-
Добавочный капитал	420	-	-
Резервный капитал	430	-	-
в том числе:			
резервы, образованные в соответствии с законодательством	431	-	-
резервы, образованные в соответствии с учредительными документами	432	-	-
Целевое финансирование	450	-	-
Нераспределенная прибыль (непокрытый убыток)	470	-	-
<b>ИТОГО по разделу III</b>	490	-	-
<b>IV. ДОЛГОСРОЧНЫЕ ОБЯЗАТЕЛЬСТВА</b>			
Займы и кредиты	510	-	-
Отложенные налоговые обязательства	515	-	-
Прочие долгосрочные обязательства	520	-	-
<b>ИТОГО по разделу IV</b>	590	-	-
<b>V. КРАТКОСРОЧНЫЕ ОБЯЗАТЕЛЬСТВА</b>			
Займы и кредиты	610	-	-
Кредиторская задолженность	620	-	-
в том числе:			
поставщики и подрядчики	621	-	-
задолженность перед персоналом организации	622	-	-
задолженность перед государственными внебюджетными фондами	623	-	-
задолженность по налогам и сборам	624	-	-
прочие кредиторы	625	-	-
Задолженность перед участниками (учредителями) по выплате доходов	630	-	-
Доходы будущих периодов	640	-	-
Резервы предстоящих расходов	650	-	-
Прочие краткосрочные обязательства	660	-	-
<b>ИТОГО по разделу V</b>	690	-	-
<b>БАЛАНС</b>	700	-	-
<b>Справка о наличии ценностей, учитываемых на забалансовых счетах</b>			
Арендованные основные средства	910	-	-
в том числе по лизингу	911	-	-
Товарно-материальные ценности, принятые на ответственное хранение	920	-	-
Товары, принятые на комиссию	930	-	-
Списанная в убыток задолженность неплатежеспособных дебиторов	940	-	-
Обеспечение обязательств и платежей полученные	950	-	-
Обеспечение обязательств и платежей выданные	960	-	-
Износ жилищного фонда	970	-	-
Износ объектов внешнего благоустройства и других аналогичных объектов	980	-	-
Нематериальные активы, полученные в пользование	990	-	-
<p>Руководитель _____ Главный бухгалтер _____</p> <p>(подпись) (расшифровка подписи) (подпись) (расшифровка подписи)</p> <p>_____</p> <p>(дата)</p>			

ОТЧЕТ О ПРИБЫЛЯХ И УБЫТКАХ

за 200 г.

Организация

Идентификационный номер налогоплательщика

Вид деятельности

Организационно-правовая форма / форма собственности

Единица измерения: тыс. руб. / млн. руб. (ненужное зачеркнуть)

Форма № 2 ОКУД

Дата (год, м-ц, число)

по ОКПО

ИНН

по ОКВЭД

по ОКОПФ / ОКФС

по ОКЕИ

КОДЫ

0710002

384/385

Показатель		За отчетный период	За аналогичный период предыдущего года
наименование	Код		
1	2	3	4
I. Доходы и расходы по обычным видам деятельности			
Выручка (нетто) от продажи товаров, продукции, работ, услуг (за минусом налога на добавленную стоимость, акцизов и аналогичных обязательных платежей)	010		
Себестоимость проданных товаров, продукции, работ, услуг	020		
Валовая прибыль	029		
Коммерческие расходы	030		
Управленческие расходы	040		
Прибыль (убыток) от продаж	050		
Прочие доходы и расходы			
Проценты к получению	060		
Проценты к уплате	070		
Доходы от участия в других организациях	080		
Прочие операционные доходы	090		
Прочие операционные расходы	100		
Внереализационные доходы	120		
Внереализационные расходы	130		
Прибыль (убыток) до налогообложения	140		
Отложенные налоговые активы	141		
Отложенные налоговые обязательства	142		
Текущий налог на прибыль	150		
	151		
Чистая прибыль (убыток) отчетного периода	190		
Справочно.			
Постоянные налоговые обязательства (активы)	200		
Базовая прибыль (убыток) на акцию			
Разводненная прибыль (убыток) на акцию			

Расшифровка отдельных прибылей и убытков

Показатель		За отчетный период		За аналогичный период предыдущего года	
наименование	Код	прибыль	убыток	прибыль	убыток
1	2	3	4	5	6
Штрафы, пени и неустойки, признанные или по которым получены решения суда (арбитражного суда) об их взыскании					
Прибыль (убыток) прошлых лет					
Возмещение убытков, причиненных неисполнением или ненадлежащим исполнением обязательств					
Курсовые разницы по операциям в иностранной валюте					
Отчисления в оценочные резервы		x		x	
Списание дебиторских и кредиторских задолженностей, по которым истек срок исковой давности					

Руководитель

Главный бухгалтер

(подпись)

(подпись)

(расшифровка подписи)

(расшифровка подписи)

(дата)

# **Publikationer från Institutionen för skogens produkter, Sveriges lantbruksuniversitet (SLU)**

## **Rapporter**

1. Ingemarson, F. 2007. De skogliga tjänstemännens syn på arbetet i Gudruns spår. Institutionen för skogens produkter, SLU, Uppsala
2. Lönnstedt, L. 2007. *Financial analysis of the U.S. based forest industry*. Department of Forest Products, SLU, Uppsala
4. Stendahl, M. 2007. *Product development in the Swedish and Finnish wood industry*. Department of Forest Products, SLU, Uppsala
5. Nylund, J-E. & Ingemarson, F. 2007. *Forest tenure in Sweden – a historical perspective*. Department of Forest Products, SLU, Uppsala
6. Lönnstedt, L. 2008. *Forest industrial product companies – A comparison between Japan, Sweden and the U.S.* Department of Forest Products, SLU, Uppsala

## **Examensarbeten**

1. Stangebye, J. 2007. Inventering och klassificering av kvarlämnad virkesvolym vid slutavverkning. *Inventory and classification of non-cut volumes at final cut operations*. Institutionen för skogens produkter, SLU, Uppsala
2. Rosenquist, B. 2007. Bidragsanalys av dimensioner och postningar – En studie vid Vida Alvesta. *Financial analysis of economic contribution from dimensions and sawing patterns – A study at Vida Alvesta*. Institutionen för skogens produkter, SLU, Uppsala
3. Ericsson, M. 2007. En lyckad affärsrelation? – Två fallstudier. *A successful business relation? – Two case studies*. Institutionen för skogens produkter, SLU, Uppsala
4. Ståhl, G. 2007. Distribution och försäljning av kvalitetsfuru – En fallstudie. *Distribution and sales of high quality pine lumber – A case study*. Institutionen för skogens produkter, SLU, Uppsala
5. Ekholm, A. 2007. Aspekter på flyttkostnader, fastighetsbildning och fastighetstorlekar. *Aspects on fixed harvest costs and the size and dividing up of forest estates*. Institutionen för skogens produkter, SLU, Uppsala
6. Gustafsson, F. 2007. Postningsoptimering vid sönderdelning av furu vid Sätters Ångsåg. *Saw pattern optimising for sawing Scots pine at Sätters Ångsåg*. Institutionen för skogens produkter, SLU, Uppsala
7. Götherström, M. 2007. Följdeffekter av olika användningssätt för vedråvara – en ekonomisk studie. *Consequences of different ways to utilize raw wood – an economic study*. Institutionen för skogens produkter, SLU, Uppsala
8. Nashr, F. 2007. *Profiling the strategies of Swedish sawmilling firms*. Department of Forest Products, SLU, Uppsala
9. Högsborn, G. 2007. Sveriges producenter och leverantörer av limträ – En studie om deras marknader och kundrelationer. *Swedish producers and suppliers of glulam – A study about their markets and customer relations*. Institutionen för skogens produkter, SLU, Uppsala
10. Andersson, H. 2007. *Establishment of pulp and paper production in Russia – Assessment of obstacles*. Etablering av pappers- och massaproduktion i Ryssland – bedömning av möjliga hinder. Department of Forest Products, SLU, Uppsala
11. Persson, F. 2007. Exponering av trägolv och lister i butik och på mässor – En jämförande studie mellan sport- och bygghandeln. Institutionen för skogens produkter, SLU, Uppsala
12. Lindström, E. 2008. En studie av utvecklingen av drivningsnettot i skogsbruket. *A study of the net conversion contribution in forestry*. Institutionen för skogens produkter, SLU, Uppsala
13. Karlhager, J. 2008. *The Swedish market for wood briquettes – Production and market development*. Department of Forest Products, SLU, Uppsala
14. Höglund, J. 2008. *The Swedish fuel pellets industry: Production, market and standardization*. Den Svenska bränslepelletsindustrin: Produktion, marknad och standardisering. Department of Forest Products, SLU, Uppsala
15. Trulsson, M. 2008. Värmebehandlat trä – att inhämta synpunkter i produktutvecklingens tidiga fas. *Heat-treated wood – to obtain opinions in the early phase of product development*. Institutionen för skogens produkter, SLU, Uppsala

16. Nordlund, J. 2008. Beräkning av optimal batchstorlek på gavelspikningslinjer hos Vida Packaging i Hestra. *Calculation of optimal batch size on cable drum flanges lines at Vida Packaging in Hestra*. Institutionen för skogens produkter, SLU, Uppsala
17. Norberg, D. & Gustafsson, E. 2008. *Organizational exposure to risk of unethical behaviour – In Eastern European timber purchasing organizations*. Department of Forest Products, SLU, Uppsala
18. Bäckman, J. 2008. Kundrelationer – mellan Setragroup AB och bygghandeln. *Customer Relationshipship – between Setragroup AB and the DIY-sector*. Institutionen för skogens produkter, SLU, Uppsala
19. Richnau, G. 2008. *Landscape approach to implement sustainability policies? - value profiles of forest owner groups in the Helgeå river basin, South Sweden*. Department of Forest Products, SLU, Uppsala
20. Sokolov, S. 2008. *Financial analysis of the Russian forest product companies*. Department of Forest Products, SLU, Uppsala