

JSC "LIEPAJAS METALURGS"

CONSOLIDATED

ANNUAL REPORT

2003

were continuing the modernization of open-heart turnace ladles.

In the review period we seriously concentrated on the question of technological waste utilization – there was signed an agreement with a German company for production of the line for dross processing by changing it into building materials and filler for bituminous concrete road coverage.

JSC “Liepajas port LM” considerably expanded activities of logistic department and continued the reconstruction of loading complex.

Development of the company

There is initiated a certification procedure in Denmark, Belgium, Poland. As well as we have also ranged over certification of our hardware.

The quality of rebars meets the standards of Germany and Netherlands.

On May, 2003 there was made an overhaul of the mill “350” with several elements of modernization.

On June there was opened the dross processing section.

JSC “Liepaja port LM” plans to invest into development of the infrastructure.

Non-profit organization Ltd. “Olympic center Ice-hockey hall” forecasts an expansion of cultural and sports events.

Expenditure of profit

Profit of the company will be used for modernization and reconstruction of equipment as well as for development of the infrastructure.

The conditions necessary in order to improve operation of the company:

- to hold constant railway tariffs and consumption prices of natural gas and electricity;
- favourable solution of the question about transit cargos;
- organization of more international sports and cultural events in our city.

V.Terentjevs



Chairman of the Board
JSC “Liepajas metalurgs”


Rīga, June 10, 2004

AUDITOR'S REPORTTo the management and shareholders of
"Liepājas Metalurgs" JSC

We have performed the audit of the consolidated financial statement of "Liepājas Metalurgs" JSC, registration No. 000301419, as of December 31, 2003. The consolidated financial statement comprises the Balance Sheet as of December 31, 2003, the Profit and Loss Account, the Report on the Changes in Equity, the Cash Flow Statement for the year ended December 31, 2003 and the Appendix. The management of the company is responsible for the presentation of the financial statement. We are responsible for the presentation, on the basis of the audit performed, of the Auditor's Report on the financial statement.

The audit was conducted according to the International Audit Standards, issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement does not contain any material misstatement. The audit included examining, on a test basis, of the substantiation of the amounts presented in the reports and explanatory notes. The audit also included the valuation of the accounting principles practiced, as well as evaluating the over-roll Annual Report presentation. The duly authorized representatives of the company have provided the auditors with the information requested and have supplied all the necessary explanations. We consider that the audit provides us with sufficient ground for expressing our opinion.

In our opinion, the consolidated financial statement for the year ended December 31, 2003 presents a fair view, in all its material aspects, of the Concern's financial state at the end of the accounting year, as well as of the performance results and cash flow in the accounting year, and has been presented in accordance with the provisions stipulated by the law of the Republic of Latvia "On corporate consolidated annual reports" and "On accounting".


A. Putniņš
Identity No. 180156 - 11011
Sworn Auditor
Certificate No.123

**ADDENDUM TO
JSC "LIEPAJAS METALURGS"
CONSOLIDATED ANNUAL REPORT**

General information

JSC "Liepajas metalurgs" was entered in Latvia Republic Enterprise Register on August 6, 1991. On August 7, 2003 it was entered in Commercial Register with the unified register No.40003014197. Joint Stock Company "Liepajas metalurgs" is a public joint stock company. The main activities of the company are production of steel, rolled products and hardware, commerce and mediatory activity, transport services, medical services and other kind of entrepreneurship that is not prohibited by the laws in force. During the review period the economic activity of joint stock company has not changed. JSC "Liepajas metalurgs" has acquired shares of several companies. At the same time the company is not registered as concern. The review period is from January 1, 2003 to December 31, 2003.

Companies involved in consolidation

On the basis of the law "About consolidated annual reports", item 1 of clause 4, consolidated annual report includes the companies that correspond to this item (more than 50 % suffrage). The included companies are:

LSEZ JSC "Liepajas port LM"	number of shares	89%
Reg. No, date	0003154754 2001.31.07.	
Address:	7/1 Sliezu str., Liepaja.	
Core business:	freight acceptance, processing and reloading, ship freightage and brokerage.	
Non-profit organization Ltd. "Olympic center ice-hockey hall Liepajas metalurgs"		90 %
Reg. No, date	000342164 1998.03.12., Riga	
Address:	93 Brivibas str., Liepaja.	
Core business:	activities of sports arenas and stadiums.	
Non-profit organization Ltd. "Football hockey club Liepajas metalurgs"		95 %
Reg. No., date	0003348213 1997.26.07.	
Address:	93 Brivibas str., Liepaja.	
Core business:	organization of sport events, propaganda of healthy way of living, organization of recreation events, tourism services.	

Mutual exclusion is done on the basis of the value of shares of the companies involved in consolidation on the date of acquisition (clause 19, item 2.(2)) or there is applied a purchase method.

In the consolidation there are not involved the associated companies.

Ltd. "Elme-Messer-Metalurgs"	number of shares	49 %
Reg. No., date	000346157, 1997.27.09.	
Address:	93 Brivibas str., Liepaja.	
Core business:	production of industrial gas, storage and trade.	

JSC "Liepajas power station" number of shares 89,7 %
Reg. No, date 210302358 2000.10.05.
Address: 93 Brivibas str., Liepaja.
Core business: production and distribution of electricity.
JSC has not yet started it's economic activity.

Latd. "Metalurgs and Duna" number of shares 50 %
Reg. No., date 210301961 1998.21.04.
Address: 1 Sturmana str., Liepaja.
Clause 10, item (2) – information is of a small account.

JSC "Liepajas tranzita ekspresis"
Reg. No, date 210302166 1999.16.07.
Address: 7/1 Sliezu str., Liepaja.
JSC "Liepajas metalurgs" and JSC "Liepajas port LM" each owns 24% of this joint stock company.
In year 2003 the company had not taken any economic activity, in the State Revenue Service Liepaja tax authority there is submitted a letter informing that economic activity of the company is stopped pro tem.

Ltd. "LM Tranzits"
Reg. No., date 210302801, 2001.21.12.
Address: 93 Brivibas str., Liepaja.
Core business: railage brokers a.o. activities.
JSC "Liepajas metalurgs" possess 95 % and JSC "Liepajas port LM" 5 % shares of this company.
In year 2003 the company had not taken any economic activity.

JSC "Liepajas siltums" number of shares 3,5 %
Reg. No., date 000321184 1994.24.08.
Address: 15 Ludvika str., Liepaja.
Core business: production and realization of heat energy.
The company is insolvent.
Shares are revaluated by the data of balance of year 2003.

Minority shareholders

Minority shareholders of the companies involved in consolidation are:

- 5% shares of non-profit organization Ltd. "Football Hockey club Liepajas metalurgs" belong to Ltd. company in liquidation "B.T.I.K." reg. No.000316351;
- 5% of non-profit organization Ltd. "Olympic center ice-hockey hall Liepajas metalurgs" belongs to Liepaja City Council reg. No.000006318; 5% - to Latvian Olympic committee reg. No.000802242.

These minority shareholders have investments in non-profit company.

The minority shareholder of LSEZ JSC "Liepajas port LM" with 11,01 % shares is a physical person Andrejs Makarenko.

The share of partnership makes 1202848 LVL.

For compilation of book-keeping registers JSC "Liepajas metalurģs" uses computers and programs created by the joint stock company itself. The other companies, involved in consolidated annual report, uses ready-made computer programs for purposes of book-keeping.

Profit or loss re-calculation is compiled by the method of turnover expenses. Until the compilation of consolidated annual report the involved companies had eliminated their different book-keeping methods used for calculation of profit or loss.

The remains of assets are audited during the inventory from October 1, 2003 to January 31, 2004.

With the assumption that these companies are going to act also hereafter the evaluation is accomplished for:

- stock in processing section by the average weighted price;
- purchased storage goods by their purchase value, by applying FIFO method;
- remains of finished products by the actual prime cost;
- fixed assets by their purchase price and additional expenses related to importation and installation.

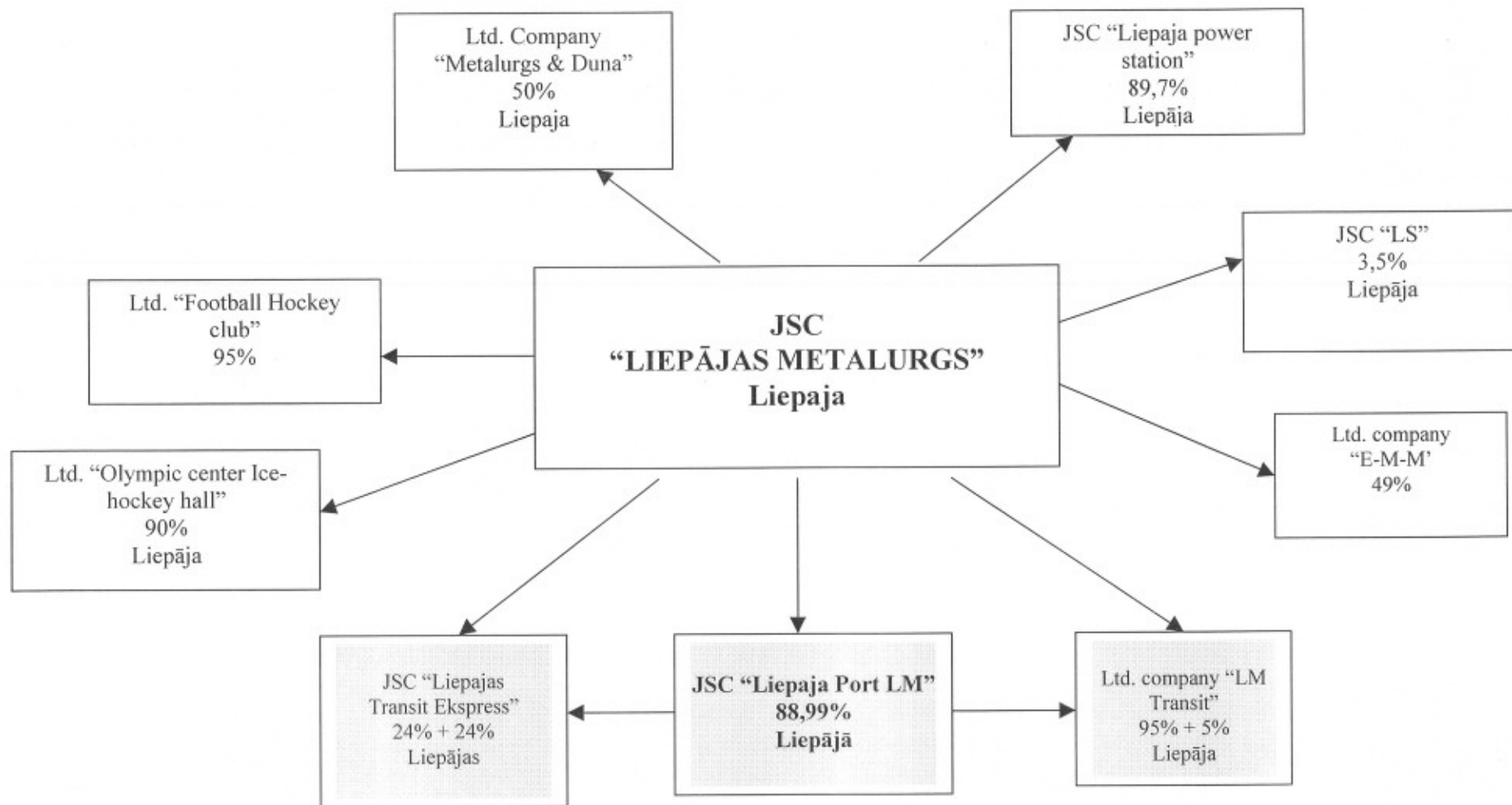
Wear of fixed assets is calculated by the linear method with applying rates of fixed assets wear under the regulation approved by the company. In Balance all the fixed assets are reflected as their purchase prices minus wear. Wear is being calculated by the linear method.

Wear is not being calculated for land.

In year 2002 jointly with Invest Riga there was made a revaluation of fixed assets.

In the Profit or loss calculation there is included all the incomes and expenses related to the review period with respect to the date of payment.

In the annual report and book-keeping there is being used currency unit of Latvia Republic – Ls (LVL). Cash consists of cash in cashier's desk and balances of bank accounts. All the items of assets and liabilities are recalculated to lats by the exchange rate stated by Latvia Bank on the last day of the review period.



JSC "Liepajas metalurgs"

Consolidated annual report for year 2003

CASH FLOW BY DIRECT METHOD

1. Cash flow of economic activity:	year 2003
income	292295521
expenses	284901048
net cash income of the economic activity	7394473
2. Cash flow of investment activities	
income	1736
expenses	3940342
net income from investment operations	-3938606
3. Cash flow of financial activities	
income	1636754
expenses	3138355
net income from financial activities	-1501601
4. Cash income surplus over cash expenses	1954266
5. Balance of cash and it's equivalent at the beginning of review period	184997
6. Balance of cash and it's equivalent at the end of review period	2139263

JOINT STOCK COMPANY LIEPAJAS METALURGS
 40003014197
 93, Brivibas str., Liepaja, LV-3401 Latvia

Consolidated annual report

CALCULATION OF PROFIT OR LOSS

FOR 12 MONTH OF THE YEAR 2003.

No.	Parameter designation	Line Code	At the end of the period of accountant	At the beginning of the period of accountant
1	2	3	4	5
1	Net turnover	010	97191953	77957029
2	Production costs for sold products	020	-87210851	-68229666
3	Gross profit or loss (from turnover)	030	9981102	9727363
4	Sales expenses	040	-921783	-1775636
5	Administration expenses	050	-3275881	-2695887
6	Other income from economic activities of the enterprise	060	4533486	4290518
7	Other expenses from economic activities of the enterprise	070	-5905960	-6392325
8	Incomes from participation in daughter or associated enterprises	080	0	5476
9	Incomes from securities and loans which formed long-term	090	0	-
10	Other interest incomes and similar incomes	100	77505	106981
11	Long-term financial investments and short-term securities value	110	-127953	-314137
12	Interest payments and similar expenses	120	-674621	-733015
13	Profit or loss prior to extraordinary items and taxes	130	3685895	2219338
14	Extra incomes	140	136179	126818
15	Extra expenses	150	-244039	-966440
16	Profit or loss prior to taxes	160	3578035	1379716
17	Profit tax for review period	170	-909004	-96874
18	Other taxes	180	-250104	-36607
19	Review period profit or loss after taxes	190	2418927	1246235
20	including minority shapeholders shape		1606	-16757
21	profit of the review period		2417321	1262992

Chairman of the Board



V. Terentjevs

Consolidated annual report
Net turnover by products

Kind of production	2003		2002	
	t	LVL	t	LVL
Rolled steel	587706,455	87038618	564851,416	68023682
Wire	14873,96	3122780	13742,078	2660328
Nails	4729,108	1291228	5422,64	1300219,00
Consumer goods	x	48128	x	37386
Castings	1776,772	659923	1766,1	579551
Industrial services	x	86838	x	93931
Nonindustrial services	x	186484	x	162483,00
Sold steam, gCal	1534,23	15239,00	1427,05	13773
Stevedoring services		1101758		1363895
Broker services		1202997		1015202
Freightage services		360444		244574
Forwarder and other services		1699645		2177446
Sports		87234		33051
Medical department		290637		264747
TOTAL		97191953		77970268

Amendment to Calculation of gains or damages No.2

JSC "Liepajas metalurģs"

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Net turnover by geographical markets

	2003	2002
Western market	81574218	66449555
Lithuania	1605593	223054
Byelorussia	16731	3762
Russia	70885	265903
Estonia	5843776	3492618
Domestic market	8080750	7517759
Kalmikija	-	17617
	97191953	77970268

JSC LIEPAJAS METALURGS

BALANCE (Consolidated annual report)

FOR 12 MONTH OF THE YEAR 2003.

ACTIVE	Note No.	Line Code	2003.g.	2002.g.
I.LONG-TERM INVESTMENTS				
I.Non-material Investments				
1.Research work and enterprise development payments		10		
2.Concessions, patents, licenses, trade marks and similar rights		20	111090	19280
3.Other non-material investments		21	8250	
4.Non-material value of the enterprise		30		
5.Advance payments for non-material investments		40		
I.TOTAL:		50	119340	19280
II.Capital assets				
1.Land areas, buildings and constructions and long-term sites		60	24683223	24828655
2.Long-term investments in rented capital assets		70	10103408	10286349
3.Technological equipment and machines		80	15492291	17219428
4.Other capital assets and inventory		90	2112062	2144238
5.Capital assets formation and payments for uncompleted construction objects		100	1809047	877640
6.Advance payments for capital assets		110	468291	183116
II.TOTAL:		120	54668322	55539426
III.Long-term financial investments				
1.Participation in the capital of the related enterprises		130	46757	46944
2.Loans to the related enterprises		140		
3.Participation in the affiliated enterprises capital		150	586322	535194
4.Loans to the associated enterprises		160	674000	647663
5.Other securities and investments		170	106481	45049
6.Other loans		180	166048	148647
7.Own shares		190		
8.Loans to joint owners of the enterprise and management		200		
III.TOTAL:		210	1579608	1423497
Section 1 total amount:		220	56367270	56982203
2.CURRENT ASSETS				
I.Stock(savings)				
1.Raw materials, basic auxiliary materials		230	7759914	6214684
2.Uncompleted products		240	1041684	412661
3.Completed products and goods for sales		250	7542382	6541953
4.Uncompleted orders		260		
5.Advance payments for goods		270	1469815	477805
6.Labour animals and productive animals		280		
I.TOTAL:		290	17813795	13647103
II Debtors				
1.Buyers and Customers debts		300	1165234	1445099
2.Related enterprises debts		310		
3.Associated enterprises debts		320	32329	287784
4.Other debtors		330	864492	1072079
5.Unpaid shares of the company capital		340		495000
6.Short-term loans to joint owners of the enterprise and management		350		
7.Future periods payments		360	240301	80178
II.TOTAL:		370	2302356	3380140
III.Securities and participation in capitals				
1.Participation in the related enterprises capital		380		
2.Own shares		390		
3.Other securities and participation in capitals		400		
III.TOTAL:		410		
IV.Funds				
IV.TOTAL:		420	2139263	184997
Section 2 total amount		430	22255414	17212240
B A L A N C E		440	78622684	74194443

JSC LIEPAJAS METALURGS

PASSIVE	Note No.	Line Code	2003.g.	2002.g.
1.OWN CAPITAL				
1.Share capital(fixed capital)		450	16981033	17476033
2.Share issue extra charge		460		
3.Long-term investments revaluation reserve		470	15318300	15371318
4.Reserves:a)reserves stipulated by law		480		
4.Reserves:b)reserves for own shares		490	30034	325939
4.Reserves:c)reserves stipulated in the company Statutes		500	346579	109177
4.Reserves:d)other reserves		510	1379453	
4.TOTAL:		520	1756066	435116
5.Undistributed profit a)undistributed profit of the previous years		530	-90908	-164214
5.Undistributed profit b)undistributed profit of the review year		540	2418927	1246235
section 1. total amount:		550	36383418	34364488
Minority shapeholders shape			1659272	1671381
Consolidation difference			9486009	9487009
2.SAVINGS				
1.Savings for pensions and similar obligations		560		
2.Savings for anticipated taxes		570		
3.Other savings		580	1016055	-
section 2. total amount:		590	1016055	-
3.CREDITORS				
I.Long-term debts.				
1.Loans against bonds(obligations)		600		
2.Share revaluation loans		610		
3.Loans from credit institutions		620	3388621	3720219
4.Other loans		630	3259994	3172332
5.Advance payments received from buyers		640		
6.Debts to suppliers and contractors		650		
7.Payable bills of exchange		660		
8.Debts to related enterprises		670		
9.Debts to associated enterprises		680		
10.Taxes and social insurance payments		690		
11.Other creditors		700		
12.Future periods income		710		
13.Review year dividends		720		
14.Unpaid dividends for previous years		730		
I.TOTAL:		740	6648615	6892551
II.Short-term debts.				
1.Loans against bonds(obligations)		750		
2.Share revaluation loans		760		
3.Loans from credit institutions		770	750949	2769769
4.Other loans		780	958755	497772
5.Advance payments received from buyers		790	277171	64754
6.Debts to suppliers and contractors		800	19635080	16995267
7.Payable bills of exchange		810		
8.Debts to related enterprises		820		
9.Debts to associated enterprises		830	20495	21413
10.Taxes and social insurance payments		840	960833	591249
11.Other creditors		850	501593	453686
12.Future periods income		860	309293	369958
13.Review year dividends		870		
14.Unpaid dividends for previous years		880	15146	15146
II.TOTAL:		890	23429315	21779014
Section 3. total amount:		900	30077930	28671565
BALANCE		910	78622684	74194443

Chairman of the Board



V. Terentjevs

JSC „Liepajas Metalurģs“

DEBTORS (Consolidated annual)

DEBTORS	Amount at 31.12.2003 in LVL	Amount at 31.12.2002
Total Buyers and Customers debts	1197563	1732883
Incl.		
Debts of buyers and customers	1165234	1445099
Debts of the allied enterprises	0	0
Debts of the associated enterprises	32329	287784
Other debtors	864492	1072079
Incl.		
Accounted & not paid VAT	357230	298666
Advance Settlements	45813	38363
VAT overpayment to the Budget	406293	389116
Debt for caused damages to the enterprise	2468	132
Various debtors	37725	274958
Overpaid salaries	953	437
Overpaid taxes	14010	70407
Unpaid part of capital	-	495000
Short-term loans to employees	-	0
Future periods payments	240301	80178
Incl.		
Press expenses	4620	4628
Other	201960	17775
Property insurance	33721	0
Training fees	0	57775
TOTAL DEBTORS:	2302356	3380140

DEBTS TO CREDITORS

CREDITOR	Amount at 31.12.2003 in LVL	at 31.12.2002
Long-term borrowings from credit institutions	3388621	37210219
Hanza leasing	3259994	3172332
Borrowings from credit institutions	750949	2769769
Short term debt to "hanza leasing"	958755	497772
Advance payments	277171	64754
Debts to suppliers and contractors	19635080	16995267
Incl. Materials, stock	2918527,22	3204443
services	1242590,02	913643
Incl. Scrap, various services related to scrap delivery, processing	2026825,83	1082926
Incl. Capital assets	46317,27	97957
Incl. for Medical department creditor	1268,44	1338
Incl. Settlements with enterprises and other business partners - non-residents	13399551,22	11694960
Debts to associated enterprises	20495,28	21413
Debts to allied enterprises	0	0
Taxes and social insurance payments	960833,29	591249
Incl. Residents' Income tax	194625,9	187780
Incl. Social tax	285500,64	296029
Incl. Nature resources tax	13382,78	13063
Incl. Enterprise's Income tax	374998,84	93494
Incl. Real estate tax	34243,9	0
Incl. State tax	2243	0
Incl. VAT	55838,23	883
Other creditors	501593	453686
Incl. Payments for salaries	431302,79	417529
Incl. Deductions from salaries	66965,51	36088
Debt to accountable persons	3324,7	69
Future periods incomes	309293	369958
Unpaid dividends for previous years	15146	15146
TOTAL CREDITORS:	30077930,57	28671565

JSC "Liepajas metalurģs"

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**Survey of equity capital changes
for year 2003**

	Fixed capital	Revaluation reserve of long-term investments	Other reserves	Reserves stated by the Law and Statutes	Undistributed profit of the previous years	Undistributed profit of the review year	Equity capital TOTAL
As at 01.01.2003.	17476033	15371318	0	435116	-164214	1246235	34364488
Profit of year 2002 counted in reserves or transmitted from other reserves			1325429	-58503	73306	-1246235	93997
Dividends for year 2002							
Undistributed profit of the review period						2418927	2418927
Fixed capital decreased for the unpaid share	-495000						-495000
The losses covered from reserves							
Decrease of revaluation reserve		-53018					-53018
Incomes from participation in daughter or associated enterprises			54024				54024
As at 31.12.2003.	16981033	15318300	1379453	376613	-90908	2418927	36383418

**Information on the consolidated year balance for personnel expenses
year 2003**

	JSC "Liepajas metalurgs"	JSC "Port LM"	Ltd. Football - hockey club	Ltd. "Olympic center ice- hockey hall"	TOTAL in the consolidated annual report
1. Average number of employees					
year 2003	2792	266	72	17	3147
year 2002	2758	258	79	19	3114
2. Personnel expenses, LVL, including salaries					
year 2003	9502634	742320	92796	39136	10376886
year 2002	8624064	709479	69102	37712	9440357
3. Average salary, LVL					
year 2003	283,62	232,55	107,4	191,84	274,78
year 2002	260,58	229,16	72,89	165,4	252,63

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**Taxes and duties paid by JSC "LIEPAJAS METALURGS"
for year 2003**

Taxes	Calculated for year 2003	Paid for year 2003	Balance at 21.12.2003.
Social tax	3167438,43	3137741,28	285501
Residents' income tax	2134527,3	2100851,47	194626
Real estate tax	218617	184373,1	34244
Nature resources tax for customs	1510,64	1510,64	
Land tax	31488,47	31488,47	
Nature resources tax	54625,28	54305,64	13383
Excise duty	2038,81	2038,81	
Enterprise's income tax	909003,84	627500	374997,84
Value added tax	-4502217,36	-4557172,59	55838
State risk duty	27014	24771	2243