

Joint-Stock Company

**"Liepājas metalurģs "**

Reg.nr. 40003014197

**Consolidated  
Annual Report**

for the year ended 31 December 2006

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## **Joint-Stock Company “Liepājas Metalurgs” Management Statement Regarding the Consolidated Annual Report 2006.**

### **Business type.**

Steel production, ship chartering and ship agency, stevedoring, cargo handling and loading port services, construction materials production, sport arena management, athletic stadium and other sports activities, cultural and social activities, renting of premises, advertising services.

### **Summary of business operations during the reporting period.**

The Company's Net Turnover in the reporting year is 204 455 039,- LVL (approx. EUR 290.91 mill.) and the consolidated profit is 9 939 575,- LVL (approx. EUR 14.14 mill.) The Net Turnover is 41.2 million LVL (approx. EUR 59.9 mill.) more than in 2005, and Profit is 5.9 million (approx. EUR 8.39 mill.) more. The profit and net turnover increase were primarily attributed to the price increase in raw materials and sold finished goods.

In the rolling mill production shop, the construction of a new automated packing line has begun in the corresponding building extension. The new technology will set the packing production workers free from heavy manual labor.

The company and became familiar with several new types of cargo. The work has begun regarding the projects of the new terminals in the port. The operations of the logistics department have increased dramatically.

The organization for training and competitive events continues for professional as well as for amateur kids and youth football, ice hockey and basketball teams.

**Use of profit.**

Companies involved in the consolidation will invest their profits in the renovation of equipment and modernization of technology as well as in the development of the infrastructure.

**Forecast and further development.**

The major tasks for year 2007 include:

- To continue the meltshop modernization;
- The building of a new terminal;
- The commissioning of a new production line for concrete type of products;
- To continue working with youth by involving them in sports and preparing new players for the national football, hockey and basketball teams.

JSC “Liepājas Metalurgs”  
Chairman of the Board

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V.Terentjevs

## INDEPENDENT AUDITOR'S REPORT

To shareholder of "Liepājas Metalurgs" AS

### Report on the financial statement

We have performed the audit of the consolidated financial statement incorporated in the annual report of "Liepājas Metalurgs" AS, registration No.40003014197, and its subsidiaries (hereinafter – Group) for the year 2006. The audited consolidated financial statement comprises the balance sheet as of 31 December 2006, the profit or loss account for the year 2006, the report on the changes in equity, and the cash flow statement for the year ended December 31, 2006, as well as a summary on the relevant accounting principles, as well as other explanatory information presented in the Appendix.

### *Management responsibility on the presentation of the financial statement*

The management of "Liepājas Metalurgs" AS is responsible for drawing up of the financial statement and accuracy of the information contained in the said report presented pursuant to the International Financial Reporting Standards. This responsibility implies establishment, implementation and maintenance of such internal control that is to ensure the drawing up and true and fair presentation of the financial report that is free from material misstatement resulting from fraudulent activity or errors, selection and use of an appropriate accounting policy, as well as preparation of accounting estimates suitable in the particular conditions.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statement based on our audit. We performed the audit in accordance with the International Standards on Audit recognized in Latvia. These standards stipulate ethical norms to be observed by the auditor and require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

The audit includes procedures undertaken to obtain audit evidence on the amounts presented in the financial statements and the information disclosed. The procedures are selected based on the auditor's professional judgement, including assessment of risk of fraudulent misrepresentation or material discrepancies in the financial statement. When performing risk assessment, the auditor takes into account internal control established to ensure the drawing up of the financial statements and accurate presentation of information in the reports aimed at determining the most appropriate procedures in the particular situation, rather than expressing an opinion on the efficiency of control. The audit also includes general evaluation of whether the applied accounting principles and relevant management assumptions, as well as the information presented in the financial statements are reasonably justified.

We believe that the disclosures made in the course of our audit are sufficient and adequate to express our auditor's opinion.

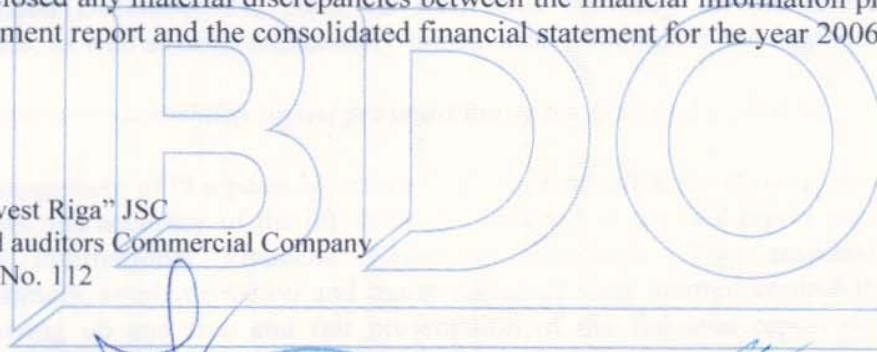
*Opinion*

In our opinion, the consolidated financial statement presents fairly, in all material respects the financial position of the Group as of December 31, 2006, and of the results of its financial performance and cash flows for the year 2006 in accordance with the International Financial Reporting Standards.

**Report on the conformity of the management report**

We have familiarised ourselves with the management report for the year 2006, and have not disclosed any material discrepancies between the financial information presented in the management report and the consolidated financial statement for the year 2006.

BDO Invest Riga™ JSC  
Certified auditors Commercial Company  
Licence No. 112



D.Tunsts  
International Liaison Partner



A.Putniņš  
The responsible certified auditor  
Certificate No.123

Riga, Latvia  
April 27, 2007

Business Type: **Steel Production**

## PROFIT AND LOSS STATEMENT (consolidated)

FOR 12 MONTHS OF THE YEAR 2006

No.	Parameter designation	Enclosure Number	At the end of the report period LVL	At the end of the report period EUR	12 months 2005 LVL	12 months 2005 EUR
1	2		3	4	5	6
1	<b>Net turnover</b>	4,5	<b>204455039</b>	<b>290913312</b>	<b>163269451</b>	<b>232311499</b>
2	<b>Production costs of goods sold</b>	6	<b>-179308667</b>	<b>-255133248</b>	<b>-147136547</b>	<b>-209356445</b>
3	<b>Gross profit or loss (from turnover)</b>		<b>25146372</b>	<b>35780064</b>	<b>16132904</b>	<b>22955054</b>
4	<b>Sales costs</b>	7	<b>-2660489</b>	<b>-3785535</b>	<b>-2322723</b>	<b>-3304937</b>
5	<b>Administration costs</b>	8	<b>-8478109</b>	<b>-12063262</b>	<b>-7715921</b>	<b>-10978766</b>
6	<b>Other operating income</b>	9	<b>5344020</b>	<b>7603855</b>	<b>10060111</b>	<b>14314248</b>
7	<b>Other operating costs</b>	10	<b>-6709178</b>	<b>-9546300</b>	<b>-12646536</b>	<b>-17994400</b>
8	<b>Interest income and other similar income</b>		<b>46393</b>	<b>66011</b>	<b>198482</b>	<b>282414</b>
9	<b>Interest payments and similar expenses</b>		<b>-519230</b>	<b>-738798</b>	<b>-329802</b>	<b>-469266</b>
10	<b>Profit or loss before extraordinary items and taxes</b>		<b>12169779</b>	<b>17316035</b>	<b>3376515</b>	<b>4804348</b>
11	<b>Income tax for the reporting period</b>		<b>-1676997</b>	<b>-2386152</b>	<b>-131785</b>	<b>-187513</b>
12	<b>Deferred tax</b>		<b>-488928</b>	<b>-695682</b>	<b>1146667</b>	<b>1631560</b>
13	<b>Other taxes</b>		<b>-366334</b>	<b>-521246</b>	<b>-375654</b>	<b>-534507</b>
14	<b>Reporting period profit or loss after taxes</b>		<b>9637520</b>	<b>13712956</b>	<b>4015743</b>	<b>5713888</b>
15	<b>Minority shareholders shares (-)</b>		<b>-302055</b>	<b>-429786</b>	<b>-178283</b>	<b>-253674</b>
16	<b>Profit or loss after taxes of the report period</b>		<b>9939575</b>	<b>14142741</b>	<b>4194026</b>	<b>5967561</b>

*Chairman of the Board*

*V. Terentjev*

**BALANCE SHEET (Consolidated )**

FOR 12 MONTHS OF THE YEAR 2006

ASSETS	Enclosure Number	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
<b>1. LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>					
1. Concessions, patents, licenses, trademarks and similar rights		1384		173	246
3. Other intangible assets		76119	108308	95245	135521
4. Goodwill		332589	473232	0	
5. Advance payments for intangible investments		4560	6488	0	
<b>I.TOTAL:</b>		<b>414652</b>	<b>588027</b>	<b>95418</b>	<b>135521</b>
<b>II. Fixed assets</b>					
1. Land, buildings and constructions, and long-term sites		29954190	42620973	32704439	46534224
2. Long-term investments in rented fixed assets		4736896	6739996	4875643	6937415
3. Technological equipment and machinery		23399301	33294206	23996318	34143684
4. Other fixed assets and inventory		2505166	3564530	2257764	3212509
5. Fixed assets formation and costs of unfinished construction sites		2192699	3119930	1524063	2168546
6. Advance payments for fixed assets		1536809	2186682	1087857	1547881
<b>II. TOTAL:</b>		<b>64325061</b>	<b>91526316</b>	<b>66446084</b>	<b>94544260</b>
<b>III. Investment properties</b>					
1. Investment properties		3718574	5291054	0	0
<b>IV. Long-term financial investments</b>					
1. Share in the capital of associated companies		458823	652846	445323	633638
2. Other loans		152439	216901	364639	518835
<b>IV. TOTAL:</b>		<b>611262</b>	<b>869747</b>	<b>809962</b>	<b>1152472</b>
<b>Section 1 total amount:</b>		<b>69069549</b>	<b>98277114</b>	<b>67351464</b>	<b>95832500</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stock (Inventories)</b>					
1. Raw materials, basic and auxiliary materials		11084688	15772090	10654083	15159394
2. Unfinished products, Work in Process		1179043	1677627	369284	525444
3. Finished products and goods for sales		9941501	14145482	6821782	9706521
4. Incompleted orders		1128	1605	359	511
5. Advance payments for goods		2076990	2955291	2424793	3450170
6. Labour animals and productive animals		100	142	0	0
<b>I. TOTAL:</b>		<b>24283450</b>	<b>34552236</b>	<b>20270301</b>	<b>28842040</b>
<b>II. Accounts receivable (Debtors)</b>					
1. Trade accounts receivable		5710698	8125591	2147067	3055001
2. Debt of associated enterprises		36984	52623	32596	46380
3. Other debtors (account receivable)		1888266	2686760	4255808	6055469
6. Short-term loans to co-owners and managemen of the company		0	0	30172	42931
7. Prepaid expenses		355335	505596	303491	431829
<b>II.TOTAL:</b>	<b>1</b>	<b>7991283</b>	<b>11370571</b>	<b>6769134</b>	<b>9631610</b>
<b>III. Short-term financial investmens</b>			0		0
<b>III. TOTAL:</b>			0	0	0
<b>IV. Cash</b>		4274115	6081518	1679596	2389850
<b>IV. TOTAL:</b>		<b>4274115</b>	<b>6081518</b>	<b>1679596</b>	<b>2389850</b>
<b>Section 2 total amount</b>		<b>36548848</b>	<b>52004326</b>	<b>28719031</b>	<b>40863500</b>
<b>TOTAL ASSETS</b>		<b>105618397</b>	<b>150281440</b>	<b>96070495</b>	<b>136695999</b>



LIABILITIES	Enclosure Number	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
<b>1. EQUITY</b>					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		25346868	36065344	26145842	37202182
3. Reserves: a) reserves stipulated by law		0	0	346579	493137
3. Reserves: d) other reserves		12491727	17774126	7987544	11365251
<b>3. TOTAL:</b>		<b>12491727</b>	<b>17774126</b>	<b>8334123</b>	<b>11858389</b>
4. Retained earnings: a) undistributed profit from the previous years		18	26	412493	586925
5. Retained earnings: b) undistributed profit of the reporting year		9939575	14142741	4194026	5967561
5. Retained earnings: c) Minority shareholders		-302055	-429786	-178283	-253674
5. Retained earnings: b+c undistributed profit of the reporting year		<b>9637520</b>	<b>13712956</b>	<b>4015743</b>	<b>5713888</b>
section 1. total amount:		<b>64457166</b>	<b>91714284</b>	<b>55889234</b>	<b>79523216</b>
Minority shareholders		<b>485816</b>	<b>691254</b>	<b>524745</b>	<b>746645</b>
<b>2. PROVISIONS</b>					
1. Provisions for anticipated taxes		1527255	2173088	0	0
2. Other provisions		4922614	7004249	3812492	5424687
section 2. total amount:		<b>6449869</b>	<b>9177337</b>	<b>3812492</b>	<b>5424687</b>
<b>3. LIABILITIES (Accounts payable)</b>					
<b>I. Long-term Creditors (Accounts payable)</b>					
1. Loans from credit institutions		981400	1396406	804023	1144022
2. Other loans		725579	1032406	470600	669603
3. Debts to suppliers and contractors		0	0	23053	32801
4. Other liabilities		200000	284574		<b>0</b>
<b>I. TOTAL:</b>		<b>1906979</b>	<b>2713387</b>	<b>1297676</b>	<b>1846427</b>
<b>II. Short-term Creditors (Accounts payable)</b>					
1. Loans from credit institutions		9694913	13794618	9583966	13636755
2. Other loans		1882792	2678972	1619942	2304970
3. Advance payments received from customers		1098028	1562353	564311	802942
4. Suppliers and contractors trade account payable		17282032	24590116	20835947	29646882
5. Accrued liabilities (payable bills of exchange)		121765	173256		0
6. Payable (debt) to associated companies		46811	66606	19622	27920
7. Taxes and state social insurance payments	2	1168223	1662232	673491	958291
8. Other liabilities		1005430	1430598	805187	1145678
9. Deferred income		3427	4876	428736	610036
10. Unpaid dividends for previous years		15146	21551	15146	21551
<b>II. TOTAL:</b>		<b>32318567</b>	<b>45985178</b>	<b>34546348</b>	<b>49155025</b>
Section 3. total amount:	3	<b>34225546</b>	<b>48698565</b>	<b>35844024</b>	<b>51001451</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>105618397</b>	<b>150281440</b>	<b>96070495</b>	<b>136695999</b>

Chairman of the Board

V.Terentjev

**JSC "Liepājas metalurģs "**

**CASH FLOW STATEMENT (by direct method) (Consolidated)  
for 12 Months of the year 2006**

	Reporting year		12 months of the year 2005	
	LVL	EUR	LVL	EUR
<b>OPERATING CASH FLOW</b>				
Cash received from buyers	216504676	308058400	160829262	228839423
Cash received from other business activities	655424	932584	522018	742765
VAT overpayment received	10377835	14766329	6689188	9517857
Cash paid to suppliers and employees	-204661124	-291206544	-164221530	-233666186
<i>Cash received from the core business activity</i>	<i>22876811</i>	<i>32550769</i>	<i>3818938</i>	<i>5433859</i>
Interest payment	-473463	-673677	-386993	-550641
Corporate income tax payments	-32867	-46766	-184540	-262577
Other tax payments	-9725053	-13837504	-799166	-1137111
<b>Net cash flow from the core business activity</b>	<b>12645428</b>	<b>17992823</b>	<b>2448239</b>	<b>3483530</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Acquisition of subsidiary company in net cash	0	0	0	0
Purchase of fixed assets	-10634882	-15132074	-14680537	-20888522
Sale of fixed assets and intangible assets	80085	113951	489856	697002
Long-term credit to students of JSC "LM" and other loans	-6880	-9789	-12271	-17460
Other loans granted	-140000	-199202	0	0
Investments in related companies (subsidiaries)	-712500	-1013796	-123176	-175264
		0		0
<b>Net cash flow from investment operations</b>	<b>-11414177</b>	<b>-16240911</b>	<b>-14326128</b>	<b>-20384244</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Short term borrowings, net value (credit line)	283277	403067	-1644453	-2339846
Long term borrowings	1167617	1661369	1459867	2077204
Paid liabilities for financial leasing	0	0	-50261	-71515
Loans to associated companies	-1000	-1423	0	0
Other long-term loans	-80502	-114544	0	0
Loan repayments	-348482	-495845	-729606	-1038136
Repayment of loans and received interests	0	0	37329	53114
Other investments (sponsorship)	-646816	-920336	-1479553	-2105214
Subsidies	1139716	1621670	1790356	2547447
<b>Net cash flow from financing activities</b>	<b>1513810</b>	<b>2153958</b>	<b>-616321</b>	<b>-876946</b>
Result of foreign currency exchange rate fluctuations	<b>-150542</b>	<b>-214202</b>	<b>-13186</b>	<b>-18762</b>
Net growth of cash and its equivalents	<b>2594519</b>	<b>3691668</b>	<b>-12507396</b>	<b>-17796421</b>
Cash and its equivalents at the beginning of accounting period	1679596	2389850	14186992	20186271
Cash and its equivalents at the end of accounting period	4274115	6081518	1679596	2389850

**JSC " Liepājas metalurģs "**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, LVL**

	Share capital	Share premium	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As of 31.01.2005</b>	<b>16981033</b>	<b>26817656</b>	<b>376613</b>	<b>3788898</b>	<b>4796942</b>	<b>-102315</b>	<b>52658827</b>
Profit in reserves				4168612	-4796942	525404	-102926
Undistributed profit of the reporting period					4015743		4015743
Previous year profit			-30034	30034			0
Minority shareholders						-10596	-10596
Increase of revaluation reserve							
Written-off revaluation reserve		-671814					-671814
<b>As of 31.12.2005</b>	<b>16981033</b>	<b>26145842</b>	<b>346579</b>	<b>7987544</b>	<b>4015743</b>	<b>412493</b>	<b>55889234</b>
Profit in reserves				4157604	-4015743	-141861	0
Undistributed profit of the review period					9637520		9637520
Minority shareholders					0	-270614	-270614
Reserves distribution			-346579	346579			0
Increase of revaluation reserve							
Written-off revaluation reserve		-798974					-798974
<b>As of 31.12.06</b>	<b>16981033</b>	<b>25346868</b>	<b>0</b>	<b>12491727</b>	<b>9637520</b>	<b>18</b>	<b>64457166</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, EUR

	Fixed capital	Revaluation reserve of long-term investments	Reserves stated by Statute	Other reserves	Undistributed profit of the report year	Undistributed profit of the previous years	Equity capital TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>As of 01.01.2005</b>	<b>24155097</b>	<b>38147448</b>	<b>535723</b>	<b>5389613</b>	<b>6823531</b>	<b>-145540</b>	<b>74905872</b>
Profit in reserves				5931401	-6825434	747583	-146450
Previous year profit			-42735	42735			0
Undistributed profit of the reporting period					5713888		5713888
Minority shareholders						-15077	-15077
Currency exchange rate fluctuation	6736	10639	149	1502	1903	-41	20888
Increase of revaluation reserve							0
Written-off revaluation reserve		-955905					-955905
<b>As of 31.12.2005</b>	<b>24161833</b>	<b>37202182</b>	<b>493137</b>	<b>11365251</b>	<b>5713888</b>	<b>586925</b>	<b>79523216</b>
Profit in reserves				5915738	-5713888	-201850	0
Undistributed profit of the review period					13712956		13712956
Minority shareholders						-385049	-385049
Reserves distribution			-493137	493137			0
Currency exchange rate fluctuation							0
Written-off revaluation reserve		-1136838					-1136838
<b>As of 31.12.2006</b>	<b>24161833</b>	<b>36065344</b>	<b>0</b>	<b>17774126</b>	<b>13712956</b>	<b>26</b>	<b>91714285</b>

## *Joint-Stock Company "Liepājas metalurģs"*

### **Addendum to the Consolidated Annual Report 2006**

JSC "Liepājas metalurģs" is a public joint-stock company, which operates in compliance with the Republic of Latvia law. The Company was registered in the Business Register of the Republic of Latvia on August 6, 1991 and it was reregistered in the Commercial Register of the Republic of Latvia on August 7, 2003 under the unified register No. 40003014197. The main activities of the Company are production of steel, rolled products and hardware, commerce and mediator activity, transport services, sports and medical services.

JSC "Liepājas metalurģs" has an ownership in various companies. In 2006 the Company further diversified its holding investing in several new companies. At the same time the Joint-Stock Company is not registered as a holding company (corporation).

#### **Companies included in consolidation:**

LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM)	number of shares - 91.63%
Business type - stevedoring services, cargo, ship broker service, ship agency.	
Ltd. "Football Hockey Club Liepājas metalurģs"	number of shares - 95%
Business type - organization of sporting events, promotion of healthy living, organization of recreation and social events.	
Ltd. "Olympic Center Ice-Hockey Hall Liepājas metalurģs"	number of shares - 90%
Business type - operation of the sport hall and stadium.	
Ltd. "Rūķis LM"	number of shares - 100%
Construction materials production, waste and crushed slag processing.	
Ltd. "Metalurģs and Duna"	number of shares - 50%
Sale of electricity and rentals of premises.	

#### **Companies not included in consolidation:**

Ltd. "SMA LM Mineral"	number of shares - 50%
JSC "Sātiņi LM"	number of shares - 100%
Ltd. "Elme-Messer-Metalurģs"	number of shares - 49%
JSC "Liepājas tranzīta eksprēsis"	number of shares - 24%

#### **Minority shareholders**

Minority shareholders of the companies involved in the consolidation are:

LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM)	8.37% of shares - physical person
Ltd. "Football Hockey Club Liepājas metalurģs"	5% of shares - Ltd. "Perle LM"
Ltd. "Olympic Center Ice-Hockey Hall Liepājas metalurģs"	5% shares - Liepājas City Council

5% shares - Latvian Olympics  
Committee

Ltd. "Metalurgs and Duna"

50% shares - physical person

### **Basis for the Preparation of the Annual Report**

The Annual Report is prepared in accordance with the law "On Accounting" and "On Annual Report" and is also in compliance with the European Union (EU) International Standards on preparation of the Financial Statements.

Companies included in consolidation have prepared their Annual Reports for the same year and applying the same accounting principles.

The following **IFRS** have been used in the preparation of the consolidation:

IAS 1	Preparation of the Annual Report
IAS 2	Inventories (Stocks)
IAS 8	Accounting Policy, Changes in Accounting Reports and Errors
IAS 10	Events After the Annual Report Date
IAS 16	Fixed (Capital) Assets
IAS 21	Impact from the Foreign Currency Exchange Rate Fluctuation
IAS 27	Consolidated and Non-Consolidated Annual Reports
IAS 39	Financial Tools: Recognition and Valuation

Profit and Loss Statement is prepared using the turnover method. Prior to the preparation of the consolidated Annual Report differences in the accounting methods used by the companies included in the consolidation were considered.

Any internal transactions between the companies that are a part of the consolidation were excluded.

In 2006, in accordance with the changes in the legislation and the opinion of the management, in order to improve the comparability of the prepared Profit and Loss Statement and the Balance Sheet, the classification of items has been changed (items are combined) in the Profit and Loss Statement. "Extraordinary Income" and "Extraordinary Costs" are included in item "Other Income from the Operating Income" and "Other Operating Costs" are included in item "Other Operating Expenses. Balance Sheet item "Accrued Liabilities" (deferred tax, provisions for vacations) moved to item "Provisions" ("Savings").

Assuming that the Company will continue its operations as a going concern, the valuation was conducted for:

- Production equipment inventory based on the average weighted prices
- Purchased goods according to the purchase price
- Finished goods margin after actual cost
- Fixed assets according to the purchase price and additional payments, which are connected to the erection and commissioning

Depreciation of fixed assets is calculated at the time of useful life of a particular asset, by using the straight-line method. In the Balance Sheet all fixed assets are recorded at historical cost. Land depreciation is not calculated.

In compliance with the International Valuation standards, BDO "Invest Rīga" conducted the Fixed Assets revaluation in order to provide support for the 2004 financial needs of the Joint-Stock Company. As a result of this revaluation the value increase was recorded, which is shown in the Shareholders Equity item called "Long-Term Assets Revaluation Reserve".

Purchased computer software belongs to the intangible assets item. The value of the acquired intangible assets is depleting, while calculating their depreciation.

Conducting a subsidiary reorganization and during the acquisition process a nonmaterial positive value appears.

Profit and Loss report includes all income and expenses resulted from the accounting year regardless their payment date.

Values presented in the Annual Report and accounting are expressed in the Latvian national currency – lats (LVL). The cash flow statement reflects cash and cash equivalents in the cash office, current bank account balances and short-term deposits.

The recalculation of the results of the Annual Report are made by applying the official currency exchange rate fixed by the Bank of Latvia as EUR 0,702804 and USD 0,536.

Accounts receivable (debtors) are presented in the balance sheet by deducting specific provisions for bad and doubtful debts.

The supplier and other debts (accounts receivables) are included in costs.

During the Rūķis LM reorganization process a positive nonmaterial value was achieved.

## 1. Accounts Receivables (Debtors)

(Consolidated)

Accounts Receivable	As of 31.12.2006.		As of 31.
	LVL	EUR	LVL
<b>Customers and affiliated companies' debts</b>	<b>5747682</b>	<b>8178215</b>	<b>2179663</b>
Incl. Debts of buyers and customers	5710698	8125591	2147067
Incl. Debts of related enterprises (subsidiaries)	0	0	0
Incl. Debts of associated enterprises	36984	52623	32596
<b>Other debtors</b>	<b>1888266</b>	<b>2686760</b>	<b>4255808</b>
Incl. Provision for VAT and unpaid VAT	148496	211291	60854
Incl. Advance payments	32614	46406	17465
Incl. VAT budget overpayments	1489266	2119035	1612555
Incl. Debt for caused damages to the enterprise	0	0	0
Incl. Various debtors	151423	215456	127193
Incl. Overpaid salaries	58	83	450
Incl. Advance payment of corporate income tax	28784	40956	0
Incl. Security amounts in auction	0	0	53376
Incl. Other overpaid taxes	37625	53536	2383915
<b>Short-term loans to employees</b>	<b>0</b>	<b>0</b>	<b>30172</b>
<b>Future periods payments</b>	<b>355335</b>	<b>505596</b>	<b>303491</b>
Incl. Press expenses	8838	12575	9534
Incl. Training Camps	23838	33918	48290
Incl. Property insurance	43429	61794	42359
Incl. Payment for ships freightage services	265625	377950	202417
Incl. Various	13605	19358	891
<b>Total Debtors:</b>	<b>7991283</b>	<b>11370571</b>	<b>6769134</b>



.12.2005
EUR
<b>3101381</b>
3055001
0
46380
<b>6055469</b>
<b>86587</b>
24850
2294459
0
180979
640
0
75947
3392005
<b>42931</b>
<b>431829</b>
13566
68710
60271
288013
1268
<b>9631610</b>

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**2. Taxes and social security payments (Consolidated)  
for 12 months of the year 2006**

Tax Description	Balance as of 01.01.2006		Recorded for 12 months 2006		Paid or allocated to a different tax category for 12 months of 2006		Balance as of 31.12.2006	Balance as of 31.12.2006
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Real estate tax	771	443	322030	458207	322801	458314	0	0
Land tax	0	0	35441	50428	35201	50428	240	341.4892346
Income tax	309177	400829	3788147	5390048	3743524	5320352	353800	503412
Social security tax	319568	429616	4569510	6501827	4426824	6341030	462254	657728
Business risk duty	1121	1487	8944	12726	9343	13173	722	1027
Corporate income tax	15005	7773	1698746	2417098	1409840	1992445	303911	432426
Nature resources tax	25272	35383	80231	114158	85049	120438	20454	29103
Packing tax	682	969	14634	20822	13096	18633	2220	3159
Value added tax	1895	2696	147571	209975	124844	177705	24622	35034
<b>TOTAL</b>	<b>673491</b>	<b>958291</b>	<b>10665254</b>	<b>15175289</b>	<b>10170522</b>	<b>14471349</b>	<b>1168223</b>	<b>1662232</b>

**3. Accounts Payable (Creditors)**

(Consolidated)

CREDITORS	As of 31.12.2006.		As of 31.12.2005.	
	LVL	EUR	LVL	EUR
<b>Long- term creditors</b>	981400	1396406	804023	1144022
<b>Other long-term borrowings (non-resident legal entity)</b>	925579	1316980	470600	669603
<b>Long-term debt to suppliers and contractors</b>	0	0	23053	32801
<b>Short-term borrowings from credit institutions</b>	9694913	13794618	9583966	13636755
<b>Borrowings from credit institutions (credit line) and credits</b>	0	0	0	0
	0	0	0	0
<b>Short term debt from "Hanza leasing"</b>	99768	141957	0	0
<b>Advance payments</b>	1098028	1562353	564311	802942
Other borrowings (factoring)	1783024	2537015	1619942	2304970
<b>Debts to suppliers and contractors</b>	<b>17282032</b>	<b>24590116</b>	<b>20835947</b>	<b>29646882</b>
Incl. Materials and gas	4241719	6035422	5106192	7265457
Incl. Services	1565601	2227650	1443689	2054184
Incl. Scrap, various services related to scrap delivery, processing	1251283	1780415	1659540	2361313
Incl. Fixed assets	267582	380735	262900	374073
Incl. Medical department creditors	2875	4091	2774	3947
Incl. Settlements with enterprises and other business partners - non-residents	9794927	13936926	12360852	17587908
Incl. Other Creditors	158045	224878	0	0
<b>Debts to related enterprises</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Debts to related enterprises (subsidiaries)</b>	<b>46811</b>	<b>66606</b>	<b>19622</b>	<b>27920</b>
<b>Taxes and social security insurance payments</b>	<b>1168223</b>	<b>1662232</b>	<b>673491</b>	<b>958291</b>
Incl. State tax	722	1027	1121	1595
Incl. Residents' Income tax	353800	503412	309177	439919
Incl. Real estate tax	240	341	771	1097
Incl. Social Security tax	462254	657728	319568	454704
Incl. Packing tax	2388	3398	0	0
Incl. Nature resources tax	20286	28864	25954	36929
Incl. Enterprise's Income tax	303911	432426	15005	21350
Incl. Value added tax	24622	35034	1895	2696
<b>Other creditors (liabilities)</b>	<b>1005430</b>	<b>1430598</b>	<b>805187</b>	<b>1145678</b>
Incl. Payments for salaries	975804	1388444	748093	1064440
Incl. Deductions from salaries	29626	42154	56234	80014
<b>Deferred Income</b>	<b>3427</b>	<b>4876</b>	<b>428736</b>	<b>610036</b>
<b>Accrued liabilities</b>	<b>121765</b>	<b>173256</b>	<b>0</b>	<b>0</b>
Incl. Suppliers and subcontractors	121765	173256	0	0
<b>Unpaid Dividends</b>	<b>15146</b>	<b>21551</b>	<b>15146</b>	<b>21551</b>

<b>Total Creditors:</b>	34225546	48698565	35844024	51001451
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**4. Net turnover (revenue) by products  
for 12 months of the year 2006  
from consolidated Profit and Loss Statement**

Product Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Rolled steel	187081161	266192510	144135546	205086405
Wire	1172961	1668973	5064400	7205992
Nails	310031	441134	1489485	2119346
Consumer goods	9595	13652	12514	17806
Castings	2390944	3402007	2111668	3004633
Services	221698	315448	276712	393726
Sold steam, gCal	15309	21783	15160	21571
Elektrical energy	85115	121108	91709	130490
Medical department	710190	1010509	546941	778227
Transportation services	114167	162445	371329	528354
Slag	206606	293974	80930	115153
Stevedoring services	2974000	4231621	3560865	5066654
Broker services	1788448	2544732	1655023	2354886
Freightage services	2084403	2965838	1712352	2436457
Forwarder and other services	4832063	6875406	1957232	2784890
Sports	163213	232231	177403	252422
Beton (concrete) wares	263053	374291	0	0
Other	32082	45649	10182	14488
<b>TOTAL</b>	<b>204455039</b>	<b>290913312</b>	<b>163269451</b>	<b>232311499</b>

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**5. Net turnover by geographic markets  
for 12 months of the year 2006**

Market	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Latvia	32468330	46198271	29040724	41321228
Lithuania	11544641	16426544	10986490	15632367
Estonia	6569064	9346936	3647078	5189324
European Union countries	109681495	156062707	99621161	141748142
Russia	15024207	21377521	2328206	3312739
Other third countries	29167302	41501332	17645792	25107700
<b>Total</b>	<b>204455039</b>	<b>290913312</b>	<b>163269451</b>	<b>232311499</b>

**6. Production costs of sold goods  
for 12 months of the year 2006**

Cost Description	12 months for year 2006		12 months for year 2005	
	LVL	EUR	LVL	EUR
Materials	124421038	177035188	105599042	150253900
Salaries and wages	11978038	17043213	10224717	14548462
Social benefits deductio	2811167	3999930	2406177	3423681
Energy resources	16134034	22956662	11324523	16113345
Depreciation	5825253	8288588	5386432	7664202
Other costs	9245075	13154557	4572366	6505891
Logistics services costs	8894062	12655110	7623290	10846964
<b>Total</b>	<b>179308667</b>	<b>255133248</b>	<b>147136547</b>	<b>209356445</b>

**7. Sales expenses  
for 12 months of the year 2006**

Cost Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Packing materials	151385	215401	181827	258717
Transportation costs	1042653	1483562	897282	1276717
Freight	789617	1123524	126569	180091
Port handling charges	34809	49529	50702	72142
Advertising and marketing costs	89679	127602	55613	79130
Other sales costs	34306	48813	758562	1079336
Costs related to L/C and factoring transactions	326100	463998	57319	81558
Sertification of products	191940	273106	194849	277245
<b>Total</b>	<b>2660489</b>	<b>3785535</b>	<b>2322723</b>	<b>3304937</b>



**8. Administration expenses  
for 12 months of the year 2006**

Cost Description	For 12 months of year 2006		For 12 months of year 2005	
	LVL	EUR	LVL	EUR
Salaries and social costs	5894421	8387005	5151123	7329388
Communication costs	224977	320113	224987	320128
Office supplies and office maintenance costs	1292819	1839516	1122513	1597192
Legal and auditing fees	232721	331132	253406	360564
Presentation costs	107570	153058	118290	168312
Depreciation of fixed assets	481813	685558	456833	650015
Traveling expenses	127781	181816	129171	183794
Management training	18082	25728	210154	299022
Costs of bank account services	79896	113682	34836	49567
Costs related to stockholders	6573	9353	14608	20785
Workers Union funds	2860	4069	0	0
Operative leasing	8596	12231	0	0
<b>Total</b>	<b>8478109</b>	<b>12063262</b>	<b>7715921</b>	<b>10978766</b>

**JSC "Liepājas Metalurģs "**

**9. Other operating income  
for 12 months of the year 2006**

Income Description	12 months of year 2006		12 months of year 2005	
	LVL	EUR	LVL	EUR
Sale of current assets	1219048	1734549	2871488	4085759
Sale of fixed assets and liquidation	107697	153239	494095	703034
Currency exchange income	1211409	1723680	1730116	2461733
Costs of reserve establishment	77377	110098	0	0
Written-off revaluation reserve of fixed assets	798974	1136838	671814	955905
Bad debt recovery	65205	92778	0	0
Recieved fine payments	17492	24889	1393964	1983432
Dotation (allowance)	1681422	2392448	0	0
Other income from operating activity	165396	235337	11438	16275
Income from the saving reduction		0	1857011	2642289
Income from the privatization price fluctuation		0	0	0
			536120	762830
			0	0
			122118	173758
<b>Total</b>	<b>5344020</b>	<b>7603855</b>	<b>10060111</b>	<b>14314248</b>

**JSC "Liepājas metalurģs "**

**10. Other operating costs  
for 12 months of the year 2006**

Cost Description	12 months of year 2006		12 months of year 2005	
	LVL	EUR	LVL	EUR
Sales costs of current assets	992207	1411783	4541459	6461914
Costs related to the sale and liquidation of fixed assets	389519	554236	765354	1089001
Fixed Assets value reduction	89325	127098	369824	526212
Currency exchange loss	1563833	2225134	3522352	5011855
Costs of reserve establishment	1974888	2810012	1625241	2312510
Compensation for damage and other allowances	351058	499511	249262	354668
Paid fines	54629	77730	2696	3836
Costs of infrastructure maintenance	19936	28366	14940	21258
Other costs and sponsorship	899531	1279917	1455740	2071331
Written-off bad debtors	81053	115328	78564	111787
Other costs	293197	417182	21104	30028
<b>Total</b>	<b>6709176</b>	<b>9546297</b>	<b>12646536</b>	<b>17994400</b>

**Information on the consolidated year balance for personnel expenses  
year 2006 12 months**

	JSC "Liepājas Metalurgs"	JSC "Port LM"	Ltd. Football - hockey club	Ltd. "Olympic center ice - hockey hall"	Ltd."Metalurgs & Duna"	JSC "Rūķis LM"	TOTAL in the consolidat ed annual report
1. Average number of employees							
<b>12 mo. 2006</b>	2700	239	102	19	4	38	3102
12 mo. 2005	2796	232	98	19	4	0	3149
2. Personnel expenses, LVL, (including salaries and wages)							
<b>LVL 2006</b>	13120291	1041084	272952	53885	11426	88404	14588042
EUR 2006	18668492	1481329	388376	76671	16258	125788	20756914
<b>LVL 2005</b>	10503083	832277	197040	43323	10522	0	11586245
EUR 2005	14944541	1184223	280363	61643	14971	0	16485741
3. Average earning LVL							
<b>LVL 2006</b>	404.95	363.00	223.00	236.34	238.04	193.87	391.90
EUR 2006	576.19	516.50	317.30	336.28	338.70	275.85	557.62
<b>LVL 2005</b>	313.04	298.95	167.55	190.01	219.21	0	311.26
EUR 2005	445.42	425.37	238.40	270.36	311.91	0	442.88