

Joint-Stock Company

"Liepājas metalurģs "

Reg.nr. 40003014197

FINANCIAL STATEMENTS

For 6 months of the year 2006

CONTENT

Management Statement

Profit and Loss Statement

Balance Sheet

Cash Flow Statement

Enclosure to Balance Sheet

Debtors (Account Receivables)

Debts to creditors (Liabilities)

Statement of changes in shareholders' equity

Enclosure to Profit or Loss Statement

Net turnover by products

Net turnover by geographic markets

Sales expenses

Administration expenses

Other operating income

Other operating expenses

Extraordinary costs

Annex to the Financial Statement

Management Statement of the JSC "Liepājas metalurģs" business activities during the first six months of the year 2006.

Business activities of JSC "Liepājas metalurģs" in the first six months of this year resulted in profit of LVL 3,9 million (EUR 5,6 million) that is about LVL 2 million more than in the first six months of the year 2005.

The profit growth was attributed to:

- Considering the product range (assortment) of the orders, the production amount had increased by 22 400 tons in comparison with the same time-period of the previous year;
- The sales prices of the finished product in first six months of this year increased by 17,1% and the price growth of the raw-materials was 11,1% in comparison with the previous year.

The Company invested LVL 6,7 million in its development during the reporting period.

The erection work for the new continuous casting machine was in progress. The caster assimilation was going well.

Simultaneously, the melt shop modernization project and related process development has begun as well as the finance strategy program is under way.

Sincerely yours,

JSC "Liepājas metalurģs"

Chairman of Board

21.07.2006.

/V.Terentiev/

PROFIT AND LOSS STATEMENT

FOR 6 MONTHS OF THE YEAR 2006

No.	Parameter designation	Line Code	At the end of the report period, LVL	At the end of the report period, EUR	At the beginning of the report period, LVL	At the beginning of the report period, EUR
1	2	3	4		5	6
1	Net turnover	010	88774226	126314344	71713579	102039230
2	Cost of sales	020	-73597341	-104719582	-63001575	-89643165
3	Gross profit or loss (from turnover)	030	15176885	21594762	8712004	12396065
4	Sales expenses	040	-3291455	-4683319	-1632438	-2322750
5	Administration expenses	050	-4220247	-6004870	-3683766	-5241527
6	Other operating income	060	1532107	2179992	4940996	7030404
7	Other operating expenses	070	-4062655	-5780637	-6226184	-8859062
8	Incomes from participation in affiliated enterprises	080		0		0
9	Income from financial assets and marketable securities	090		0		0
10	Interest and other income	100	88426	125819	63458	90293
11	Long-term financial investments and short-term securities value	110		0		0
12	Interest payments and similar expenses	120	-232137	-330301	-96415	-137186
13	Profit or loss prior to extraordinary items and taxes	130	4990924	7101445	2077655	2956237
14	Extraordinary income	140	0	0		0
15	Extraordinary expenses	150	-533868	-759626	-272962	-388390
16	Profit or loss prior to taxes	160	4457056	6341819	1804693	2567847
17	Income tax for the report period	170	-331973	-472355	-300292	-427277
18	Other taxes	180	-191250	-272124	-186613	-265526
19	Profit or loss after taxes of the report period	190	3933833	5597340	1317788	1875043

Chairman of Board

V. Terentjev

BALANCE SHEET
FOR 6 MONTHS OF THE YEAR 2006

ASSETS	Line Code	2006, LVL	2006, EUR	6 months 2005, LVL	6 months 2005, EUR
1. LONG-TERM INVESTMENTS					
I. Non-material investments					
1. Research and development	10				
2. Concessions, patents, licenses, trade marks and similar rights	20				0
3. Other non-material investments	21	76074	108244	113695	161773
4. Non-material value of the enterprise	30		0		0
5. Advance payments for non-material investments	40		0		0
I.TOTAL:	50	76074	108244	113695	161773
II. Capital assets					
1. Land, buildings and constructions, and long-term sites	60	28978517	41232715	25594243	36417327
2. Long-term investments in rented capital assets	70	25811	36726	16983	24165
3. Technological equipment and machinery	80	19631195	27932674	11217368	15960877
4. Other capital assets and inventory	90	1605924	2285024	2060654	2932046
5. Capital assets formation and payments for uncompleted construction objects	100	7707091	10966203	9024432	12840610
6. Advance payments for capital assets	110	1069398	1521616	3141346	4469733
II. TOTAL:	120	59017936	83974957	51055026	72644757
III. Long-term financial investments					
1. Investments in the related enterprises	130	4337126	6171174	3425030	4873379
2. Loans to the related enterprises	140	3582563	5097528	4045474	5756191
3. Participation in the associated enterprises capital	150	559343	795873	720956	1025828
4. Loans to the associated enterprises	160		0		0
5. Other securities and investments	170		0		0
6. Other loans	180	121423	172769	98017	139466
7. Own shares and interests	190		0		0
8. Loans to joint owners of the enterprise and management	200		0		0
III. TOTAL:	210	8600455	12237345	8289477	11794863
Section 1 total amount:	220	67694465	96320546	59458198	84601394
2. CURRENT ASSETS					
I. Stock (savings)					
1. Raw materials, basic and auxiliary materials	230	10386829	14779126	7456456	10609581
2. Unfinished products, Work in Process	240	425784	605836	1028418	1463307
3. Finished products and goods for sales	250	9360077	13318190	12337302	17554399
4. Incompleted orders	260	1085	1544	452	643
5. Advance payments for goods	270	1070035	1522523	759320	1080415
6. Labour animals and productive animals	280		0		0
I. TOTAL:	290	21243810	30227218	21581948	30708345
II. Debtors (account receivables)			0		
1. Buyers and Customers debts	300	11158817	15877566	1116058	1588007
2. Related enterprises debts	310	1072296	1525740	540984	769751
3. Associated enterprises debts	320	35077	49910	30157	42910
4. Other debtors (account receivable)	330	1866285	2655484	1822289	2592884
5. Unpaid shares of the company capital	340		0		0
6. Short-term loans to joint owners of the enterprise and management	350	600	854		0
7. Future periods payments	360	74578	106115	60169	85613
II.TOTAL:	370	14207653	20215669	3569657	5079164
III. Securities and participation in capitals					
1. Participation in the related enterprises capital	380		0		0
2. Own shares and interests	390		0		0
3. Other securities and participation in capitals	400		0	3256	4633
III. TOTAL:	410	0	0	3256	4633
IV. Funds		4349971	6189451	5880910	8367781
IV. TOTAL:	420	4349971	6189451	5880910	8367781
Section 2 total amount	430	39801434	56632338	31035771	44159924
TOTAL ASSETS	440	107495899	152952884	90493969	128761318

LIABILITIES AND SHAREHOLDERS' EQUITY	Line Code	2006, LVL	2006, EUR	6 months 2005, LVL	6 months 2005, EUR
1. SHAREHOLDERS' EQUITY					
1. Share capital (fixed capital)	450	16981033	24161833	16981033	24161833
2. Share issue extra charge	460		0		0
3. Long-term investments revaluation reserve	470	25971909	36954697	26705294	37998210
4. Reserves: a) reserves stipulated by law	480		0		0
4. Reserves: b) reserves for own shares	490		0		0
4. Reserves: c) reserves stipulated in the company statutes	500	346579	493137	346579	493137
4. Reserves: d) other reserves	510	12145148	17280989	8257161	11748882
4. TOTAL:	520	12491727	17774126	8603740	12242019
5. Undistributed profit a) undistributed profit from the previous years	530		0		0
5. Undistributed profit b) undistributed profit of the report year	540	3933833	5597340	1317788	1875043
section 1. total amount:	550	59378502	84487997	53607855	76277106
2. SAVINGS			0		0
1. Savings for pensions and similar obligations	560		0		0
2. Savings for anticipated taxes	570		0	2079000	2958150
3. Other savings	580	2950000	4197472	3041560	4327750
section 2. total amount:	590	2950000	4197472	5120560	7285900
3. LIABILITIES			0		0
I. Long-term debt			0		0
1. Loans against bonds (obligations)	600		0		0
2. Loans convertible into shares	610		0		0
3. Loans from credit institutions	620		0		0
4. Other loans	630		0		0
5. Advance payments received from buyers	640		0		0
6. Debts to suppliers and contractors	650		0		0
7. Payable bills of exchange	660		0		0
8. Related enterprises trade account payable	670		0		0
9. Associated enterprises trade account payable	680		0		0
10. Taxes and social insurance payments	690		0		0
11. Other liabilities	700		0		0
12. Deferred income	710		0		0
13. Review year dividends	720		0		0
14. Unpaid dividends for previous years	730		0		0
I. TOTAL:	740		0		0
II. Current liabilities			0		0
1. Loans against bonds (obligations)	750		0		0
2. Share revaluation loans	760		0		0
3. Loans from credit institutions	770	9063712	12896500	4198592	5974058
4. Other loans	780	9558164	13600042	11236	15987
5. Advance payments received from buyers	790	1210961	1723042	464829	661392
6. Suppliers and contractors trade account payable	800	20453031	29102041	25106895	35723893
7. Accrued liabilities	810	3237773	4606936		0
8. Related enterprises trade account payable	820	56591	80522	25557	36364
9. Associated enterprises trade account payable	830	26350	37493	19037	27087
10. Taxes and social insurance payments	840	695317	989347	1312155	1867028
11. Other liabilities	850	865498	1231493	505135	718742
12. Deferred income	860		0	122118	173758
13. Review year dividends	870		0		0
14. Unpaid dividends for previous years	880		0		0
II. TOTAL:	890	45167397	64267416	31765554	45198311
Section 3. total amount:	900	45167397	64267416	31765554	45198311
TOTAL LIABILITIES AND EQUITY	910	107495899	152952884	90493969	128761318

Chairman of Board

V. Terentjev

JSC "Liepājas metalurģs"

**STATEMENT OF CASH FLOW BY DIRECT METHOD
for 6 Months of the year 2006**

	Report period		6 month of the year 2005	
	LVL	EUR	LVL	EUR
OPERATING CASH FLOW				
Cash received from buyers	96789034	137718388	72584255	103278090
Cash received from other business activities	122854	174805	391194	556619
VAT overpayment received	6390148	9092361	3695674	5258470
Cash paid to suppliers and employees	-89709791	-127645533	-74790346	-106417075
<i>Cash received from the core business activity</i>	13592245	19340022	1880777	2676105
Paid interests (expense)	-232137	-330301	0.00	0
Paid enterprise's income tax	0	0	0.00	0
Paid other taxes	-4288099	-6101415	-2937221	-4179289
<i>Net cash flow from the core business activity</i>	9072009	12908306	-1056444	-1503184
CASH FLOW FROM INVESTMENT ACTIVITIES				
Acquisition of subsidiary company in net cash	0	0		0
Purchase of fixed assets	-5878590	-8364480	-6011923	-8554196
Sale of fixed assets	19357	27543	0	0
Long-term credit to students of JSC "LM" and other loans	-142306	-202483	-2235	-3180
Investments in allied companies	-23500	-33437	-143176	-203721
<i>Net cash flow from investment operations</i>	-6025039	-8572858	-6157334	-8761097
CASH FLOW FROM FINANCING ACTIVITIES				
Short term borrowings, net value (credit line)	-197089	-280432	-663667	-944313
Long term borrowings	0	0		0
Paid liabilities for financial leasing	0	0		0
Loans to associated companies	-350000	-498005	-20000	-28457
Repayment of loans and received interests	864058	1229444	357775	509068
Other investments (sponsorship)	-376419	-535596	-189318	-269375
<i>Net cash flow from financing activities</i>	-59450	-84590	-515210	-733078
Result of foreign currency exchange fluctuations	-33995	-48371	-13600	-19351
Net growth of cash and its equivalents	2953525	4202487	-7742588	-11016710
Cash and its equivalents at the beginning of accounting period	1396446	1986964	13623498	19384491
Cash and its equivalents at the end of accounting period	4349971	6189451	5880910	8367781

DEBTORS (Account Receivables)

DEBTORS	As of 1.07.2006.		As of 1.07.2005	
	LVL	EUR	LVL	EUR
Customers and affiliated companies' debts	12266190	17453216	1687199	2400668
Incl. Debts of buyers and customers	3767342	5360445	1116058	1588007
Incl. Debts of allied enterprises	1072296	1525740	540984	769751
Incl. Debts of associated enterprises	35077	49910	30157	42910
Incl. Debts of buyers with factoring activities	7391475	10517121	0	0
Other debtors	1866285	2655484	1822289	2592884
Incl. Provision for VAT and unpaid VAT	199470	283820	0	0
Incl. Advance payments	16337	23245	24250	34505
Incl. VAT budget overpayments	1518202	2160207	1032050	1468477
Incl. Debt for caused damages to the enterprise	0	0	9663	13749
Incl. Various debtors	131889	187661	43665	62130
Incl. Overpaid salaries	387	551	572	814
Incl. Advance payment of enterprise income tax	0	0	643810	916060
Incl. Security amounts in auction	0	0	55279	78655
Incl. Other overpaid taxes	0	0	13000	18497
Short-term loans to employees	600	854	0	
Future periods payments	74578	106115	60169	85613
Incl. Press expenses	4787	6811	6292	8953
Incl. Miscellaneous	29740	42316	10769	15323
Incl. Property insurance	40051	56987	43108	61337
Total Debtors:	14207653	20215669	3569657	5079164

DEBTS TO CREDITORS (Liabilities)

CREDITORS	As of 1.07.2006.		As of 1.07.2005.	
	LVL	EUR	LVL	EUR
Short-term borrowing from credit institutions	3345347	4760000	0	
Borrowings from credit institutions	5718365	8136500	4198592	5974058
		0		0
Short term debt to "Hanza leasing"	0	0	11236	15987
		0		0
Advance payments	1210961	1723042	464829	661392
		0		0
Other borrowings (factoring)	9558164	13600042		0
		0		0
Debts to suppliers and contractors	20453031	29102041	25106895	35723893
Incl. Materials and gas	3684325	5242322	2788104	3967115
Incl. Services	893474	1271299	870963	1239269
Incl. Scrap, various services related to scrap delivery, processing	831974	1183792	391479	557024
Incl. Capital assets	111069	158037	74068	105389
Incl. Medical department creditors	2316	3295	2182	3105
Incl. Settlements with enterprises and other business partners - non-residents	14425431	20525539	20949675	29808702
Incl. Other Creditors	504442	717756	30424	43289
Debts to related enterprises	56591	80522	25557	36364
		0		0
Debts to associated enterprises	26350	37493	19037	27087
		0		0
Taxes and social insurance payments	695317	989347	1312155	1867028
Incl. State tax	706	1005	1022	1454
Incl. Residents' Income tax	301482	428970	197401	280876
Incl. Real estate tax	10320	14684	7500	10672
Incl. Social tax	362666	516027	296932	422496
Incl. Packing tax	494	703	0	0
Incl. Nature resources tax	19649	27958	20000	28457
Incl. Enterprise's Income tax	0	0	789300	1123073
		0		0
Other creditors (liabilities)	865498	1231493	505135	718742
Incl. Payments for salaries	838208	1192663	475187	676130
Incl. Deductions from salaries	27290	38830	29948	42612
		0		0
Deferred Income	0	0	122118	173758
		0		0
Accrued liabilities	3237773	4606936		0
Incl. Deferred tax	932333	1326590	0	0
Incl. Tax savings for unused vacations	2305440	3280346	0	0
		0		0
Total Creditors:	45167397	64267416	31765554	45198311

JSC " Liepājas metalurģs "

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, LVL

	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
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As of 31.12.2004 (1.01.05)	16981033	26745272	346579	3679144	4308400	0	52060428
Profit in reserves				4308400	-4308400	0	0
Undistributed profit of the review period					4157604		4157604
Increased Equity							
Increase of revaluation reserve							
Written-off revaluation reserve		-671814					-671814
As of 31.12.2005	16981033	26073458	346579	7987544	4157604	0	55546218
Profit in reserves				4157604	-4157604		0
Undistributed profit of the review period					3933833		3933833
Increased Equity							
Increase of revaluation reserve							
Written-off revaluation reserve		-101549					
As of 30.06.06	16981033	25971909	346579	12145148	3933833	0	59378502

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
As of 01.01.2005	24155097	38044484	493000	5233491	6128592	0	74054664
Profit in reserves				6128592	-6128592	0	0
Undistributed profit of the review period					5915735		5915735
Currency exchange rate fluctuation	6736	10609	137	3171			20653
Increase of revaluation reserve							
Written-off revaluation reserve		-955905					-955905
As of 31.12.2005	24161833	37099188	493137	11365254	5915735	0	79035147
Profit in reserves				5915735	-5915735		0
Undistributed profit of the review period					5597340		5597340
Increased Equity							
Increase of revaluation reserve							0
Currency exchange rate fluctuation							
Written-off revaluation reserve		-144491					-144491
As of 30.06.2006	24161833	36954697	493137	17280989	5597340	0	84487996

JSC " Liepājas metalurģs "

**Net turnover by products
for 6 months of the year 2006**

Product Description	For 6 months of year 2006		For 6 months of year 2005	
	LVL	EUR	LVL	EUR
Rolled steel	85674029	121903161	66072825	94013160
Wire	1171475	1666859	3239330	4609151
Nails	303449	431769	797751	1135097
Consumer goods	5587	7950	10486	14920
Castings	1005058	1430069	961630	1368276
Services	68263	97129	90290	128471
Sold steam, gCal	7905	11248	7634	10862
Medical department	368431	524230	235741	335429
Transportation services	27065	38510	217590	309603
Slag	142964	203419	80302	114259
TOTAL	88774226	126314344	71713579	102039230

JSC "Liepājas metalurģs "

**Net turnover by geographic markets
for 6 months of the year 2006**

Market	For 6 months of year 2006		For 6 months of year 2005	
	LVL	EUR	LVL	EUR
Latvia	6151500	8752796	4313605	6137707
Lithuania	5063225	7204320	5323935	7575277
Estonia	2739567	3898053	905712	1288712
European Union countries	53813018	76569026	47466319	67538487
Russia	1713609	2438246	935200	1330670
Other third countries	19293307	27451903	12768808	18168377
Total	88774226	126314344	71713579	102039230

**Sales expenses
for 6 months of the year 2006**

Cost Description	For 6 months of year 2006		For 6 months of year 2005	
	LVL	EUR	LVL	EUR
Packing materials	83239	118438	86637	123273
Transportation costs	382684	544510	490094	697341
Freight	1860739	2647593	38768	55162
Port handling charges	680673	968510	881223	1253867
Advertising and marketing costs	34598	49229	33171	47198
Other sales costs	123597	175863	102545	145908
Costs related to L/C and factoring transactions	125925	179175	0	0
Total	3291455	4683319	1632438	2322750

JSC "Liepājas metalurģs "

**Administration expenses
for 6 months of the year 2006**

Cost Description	For 6 months of year 2006		For 6 months of year 2005	
	LVL	EUR	LVL	EUR
Salaries and social costs	3061094	4355544	2561899	3645254
Communication costs	63893	90912	65409	93069
Office supplies and office maintenance costs	549679	782123	544745	775102
Legal and auditing fees	161777	230188	130516	185708
Presentation costs	63339	90123	36421	51822
Wear and tear of fixed assets	228838	325607	230948	328609
Travel expenses	49616	70597	69807	99326
Management training	9154	13025	8169	11623
Costs of bank account services	31693	45095 0	28495	40545
Costs related to stockholders	1164	1656	7357	10468
Total	4220247	6004870	3683766	5241527

JSC " Liepājas Metalurģs "

**Other operating income
for 6 months of the year 2006**

Income Description	6 months of year 2006		6 months of year 2005	
	LVL	EUR	LVL	EUR
Sale of current assets	669113	952062	1563807	2225097
Transit transport	8546	12160	792045	1126979
Sale of fixed assets and liquidation	14889 2430	21185 3458	207023 1345	294567 1914
Currency exchange income	671782	955860	617719	878935
Received fines	7828	11138	6446	9172
Written-off revaluation reserve of fixed assets	101549	144491	39978	56884
Bad debt recovery	5	7	1385400	1971247
Other income from operating activity	55965	79631	327233	465611
Total	1532107	2179992	4940996	7030404

JSC " Liepājas metalurģs "

**Other operating expenses
for 6 months of the year 2006**

Cost Description	6 months of year 2006		6 months of year 2005	
	LVL	EUR	LVL	EUR
Sales costs of current assets	587464	835886	1468436	2089396
Costs of transportation services	10243	14574	1018982	1449881
Costs related to the sale and liquidation of fixed assets	83612	118969	351881	500682
Currency exchange loss	684538	974010	1712877	2437204
Costs of reserve establishment	2400000	3414892	1100000	1565159
Compensation for damage and other allowances	255394	363393	155115	220709
Other costs	41404	58913	418893	596031
Total	4062655	5780637	6226184	8859062

JSC " Liepājas metalurģs "

**Extraordinary costs
for 6 month of year 2006**

Cost Description	6 months of year 2006		6 months of year 2005	
	LVL	EUR	LVL	EUR
Paid fines	53441	76040	21	30
Sponsorship and other costs	459211	653398	291673	415013
Costs of infrastructure maintenance	17638	25097	8598	12234
Other expenses unrelated to operating activity	3578	5091	0	
Total	533868	759626	300292	427277

Annex to the Financial Statements of JSC "Liepājas metalurģs" for the first six months of the year 2006.

JSC "Liepājas metalurģs" has prepared its Financial Statements in compliance with the law "On the Enterprise Annual Statements" as well as according to the Latvian Accounting Standards Nr. 1 "Basic Concepts for the Preparation of the Financial Statements", Nr. 2 "Cash Flow Statement" and Nr. 7 "Capital Assets".

The Financial Statement results calculations are made using the currency exchange rate of EUR 0.702804, set by the Bank of Latvia.

The ratio for the "earning per share" of JSC "Liepājas metalurģs" is 0.23166.