

Joint-Stock Company  
"Liepājas metalurģs "  
Reg.nr. 40003014197

Annual Report

For the year ended 31 December 2007

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**BDO Invest Rīga**  
Auditorfirma

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## INDEPENDENT AUDITOR'S REPORT

To shareholders of "Liepājas Metalurģs" AS

### Report on the financial statement

We have performed the audit of the financial statement incorporated in the annual report of "Liepājas Metalurģs" AS, registration No.40003014197, for the year 2007, which is presented on pages from 11 to 37. The audited financial statement comprises the balance sheet as of 31 December 2007, the profit or loss account for the year 2007, the report on the changes in equity, and the cash flow statement for the year ended December 31, 2007, 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 Metalurģs" 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 financial statement presents fairly, in all material respects the financial position of the "Liepājas Metalurģs" AS as of December 31, 2007, and of the results of its financial performance and cash flows for the year 2007 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 2007, which is presented on pages from 5 to 10 and have not disclosed any material discrepancies between the financial information presented in the management report and the financial statement for the year 2007.

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



A.Putniņš  
Member of the Boards

V.Zītare  
The responsible certified auditor  
Certificate No.62

Riga, Latvia  
April 11, 2008

### INFORMATION ABOUT THE COMPANY

1. Full name of the Company: Joint-Stock Company "Liepājas metalurģs"
2. Legal status of the Company: Public Joint-Stock Company
3. Registration number of the State: 40003014197  
Registration, place, date: The Republic of Latvia Commercial Register, 07-Aug-2003
4. Taxpayer registration number: 40003014197
5. Legal address of the Company: Brīvības street 93, Liepāja LV-3401, LATVIA
6. Office address and phone number: Brīvības street 93, Liepāja LV-3401, LATVIA  
Phone: +371 634 55921
7. Type of business activity: Steel production
8. Year of account: 2007, 12 months
9. Director: Leons Ptičkins  
Position: Managing Director and a Member of the Board
10. Information on the major stockholders: The biggest stockholders are:
- |                                   |        |
|-----------------------------------|--------|
| Sergejs Zaharjins                 |        |
| Proportion (%) of stocks (shares) | 49%    |
| Iļja Segals                       |        |
| Proportion (%) of stocks (shares) | 20.80% |
| Kirovs Lipmans                    |        |
| Proportion (%) of stocks (shares) | 17.70% |
11. Council: Sergejs Zaharjins  
Aleksejs Zaharjins  
Kirovs Lipmans  
Māris Pomerancis  
Guntis Vilnītis  
Andris Deniņš
12. Members of the Board: Valērijs Terentjevs  
Iļja Segals  
Leons Ptičkins
13. The name of the bank, code, operating account number: AS SEB Unibanka  
Konta Nr.LV96UNLA 0012002467028
14. Chief Accountant: Ligita Bērzupe
15. Auditor, number of license, address: JSC "BDO Invest Riga"  
Address: Pulkveža Brieža street 19/1, Riga  
Valda Zītare, licence No 62
16. Average number of employees: 2650
-

## **Joint-Stock Company "Liepājas Metalurģs" Management Statement Regarding the Financial Statements for 12 months of 2007.**

### **Business type**

JSC "Liepājas Metalurģs" is the only steel production company in the Baltic region. The company did not change the nature of its business in 2007, and all production types worked consistently.

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

JSC "Liepājas Metalurģs" had a successful year in 2007, since the preset goals and assignments were met. The Company's Net Turnover in the reporting year was 221.5 million LVL (EUR 315.2 mill.), which was 29.3 million LVL (EUR 41.7 mill.) more than in 2006. The net turnover increase was primarily related to the fact that the sales volume increased by 18,094 tons together with the sales price increase by 13.1%.

11.3% of the product was sold on the local market, while the main export destinations included Poland, Russia, United Kingdom, Ireland, Lithuania, and Germany.

The Company's Profit from business activities was 16.4 mill LVL (EUR 23.4 mill.), which was 7 million LVL (EUR 9.9 mill.) more than in 2006. The profit increase was mainly attributed to the sales volume and price increase.

### **Financial risk management**

The operations of JSC "Liepājas Metalurģs" are exposed to the financial risks – such as the foreign currency exchange rate and bank interest rate fluctuations.

The Company conducts a risk-averse politics assuring that any outstanding debt obligations are closed within the proper timeframe. As of the 31<sup>st</sup> of December 2007, the working capital exceeded short-term obligations by 15.5 million LVL (EUR 22 mill.).

The management of JSC "Liepājas Metalurģs" is of the opinion that there are sufficient cash resources available in order not to jeopardize the liquidity aspect of the Company.

### **Year 2007 major events**

The year 2007 was marked with proactive efforts in the market research sector together with an aggressive work gaining the new customers.

The technical development of the company was mainly directed at:

- the modernization of the rolling mill by installing a new automated packing line
- the continuation of activities concerning the steel melting production practice and related to its modernization program coordination and financing

The company invested in its operations 9.6 million LVL (EUR 13.7 mill) over the reporting period.

### **Upcoming developments and plans of JSC "Liepājas Metalurģs"**

- 1) To continue the meltshop modernization – gradual replacement of the existing open-heart furnaces with the 100-ton Electric Arc Furnace (EAF) and Ladle furnace (LF); the constructions contracts have been signed and the Company is

- currently securing the necessary financing; the government guarantee assuring the necessary electric connection and sufficient electricity supply has been obtained.
- 2) To complete the integration of the new automated bundling and discharging (packing) line on the Rolling Mill 350.
  - 3) The Mechanical Repair Shop – to add the new modern technology and tools for the automated equipment.
  - 4) To continue fitting the Central Laboratory with the modern testing equipment (including the acquisition of the fluorescent x-ray multi-channel spectrometer).
  - 5) To continue the work concerning the product international certification.

#### **Conditions and events occurred after the financial statements closure**

No important events occurred from the end of the reporting period to the day the Board of JSC "Liepājas Metalurģs" reviewed the Annual Report, which may have had an effect on the annual performance results or financial conditions of the Company.

#### **Proposal for use of the JSC "Liepājas Metalurģs" profit**

The management of JSC "Liepājas Metalurģs" proposed the shareholders meeting to vote in favor of allocating the year 2007 profit (16.4 mill LVL or EUR 23.4 mill.) to the further operations and production development.

Chairman of the Board	_____	/V.Terentjevs/
Member of the Board	_____	/I.Segals/
Member of the Board	_____	/L.Ptičkins/

## **Statement Regarding the Management Responsibility.**

The JSC "Liepājas metalurģs" (in this text – the Company) Council and Board are responsible for the preparation of the Company financial statement.

The Financial Statement represents the true picture for the Company financial position as of December 31, 2007 as well as the results of its operations and cash flow for the year 2007. The above-mentioned financial statements are prepared in accordance with the requirements of the International Accounting Standards for the financial statements, which are acceptable in the European Union. During the preparation of the financial statements the management:

- has been using and applying the appropriate accounting methods
- has been issuing justified and conservative conclusions and estimates
- has been adhering in accordance with the principle of the management's continuation

In the name of the JSC "Liepājas metalurģs",

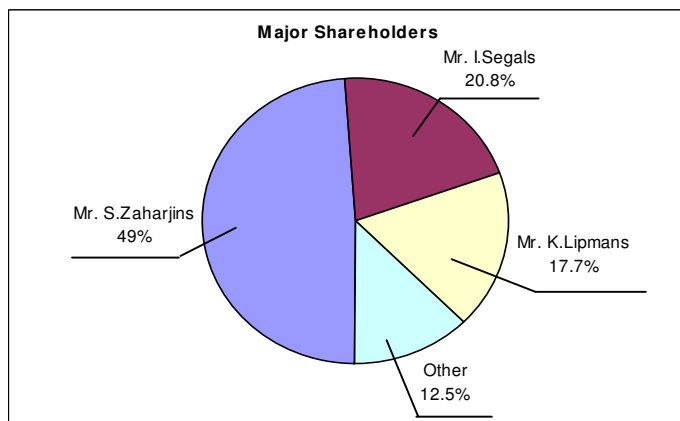
Chairman of the Board	_____	/V.Terentjevs/
Member of the Board	_____	/I.Segals/
Member of the Board	_____	/L.Ptičkins/



## SHARES AND SHAREHOLDERS

The Share (Fixed) Capital of the JSC "Liepājas metalurģs" amounts to LVL 16 981 033,- (EUR 24 161 733).

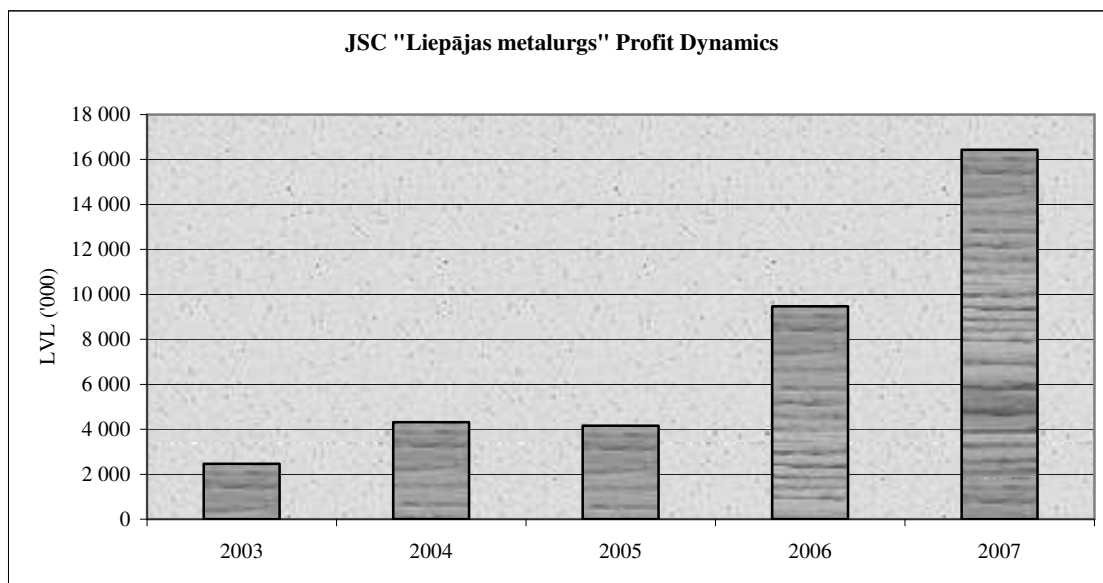
The Share Capital consist of 16 981 033 shares, with a nominal value of LVL 1,00 per share (EUR 1,42 / share).

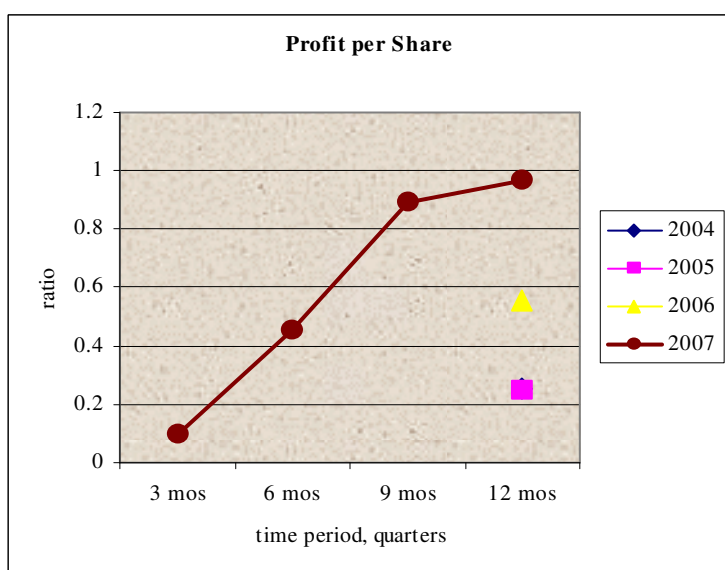
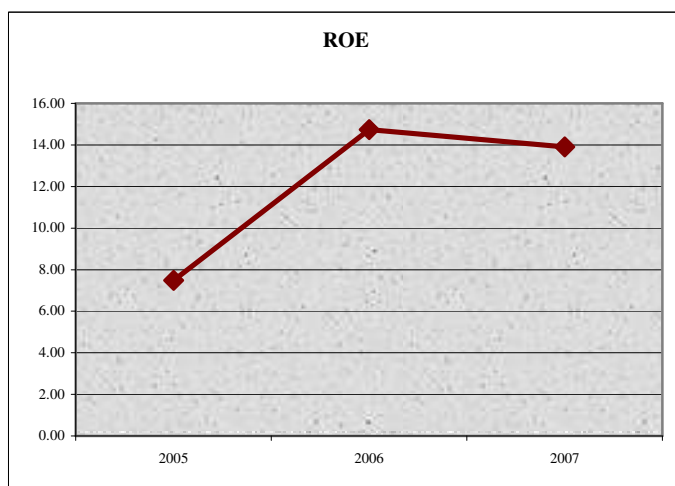
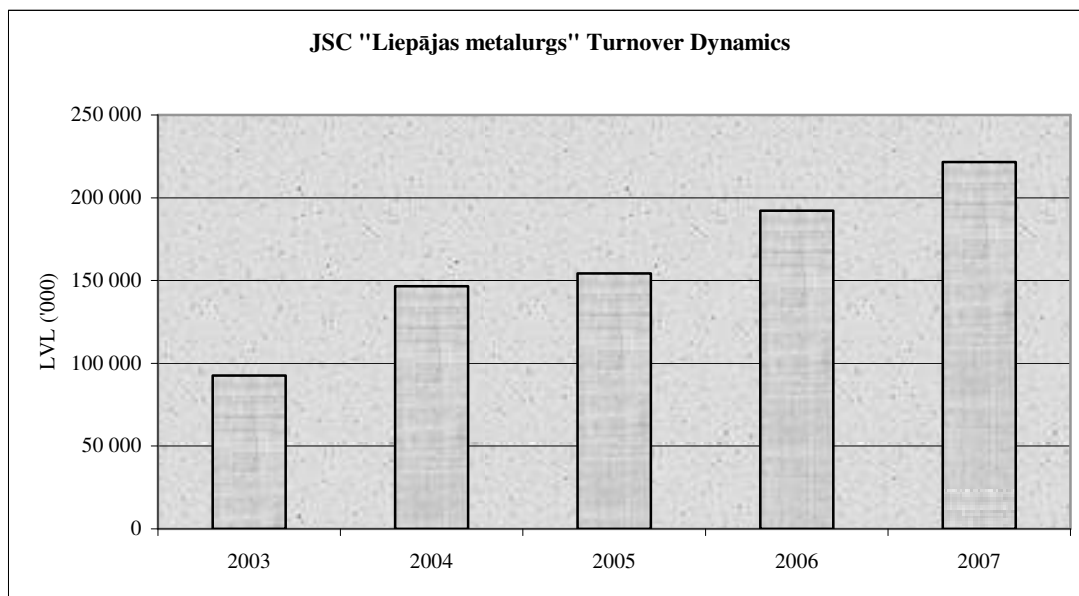


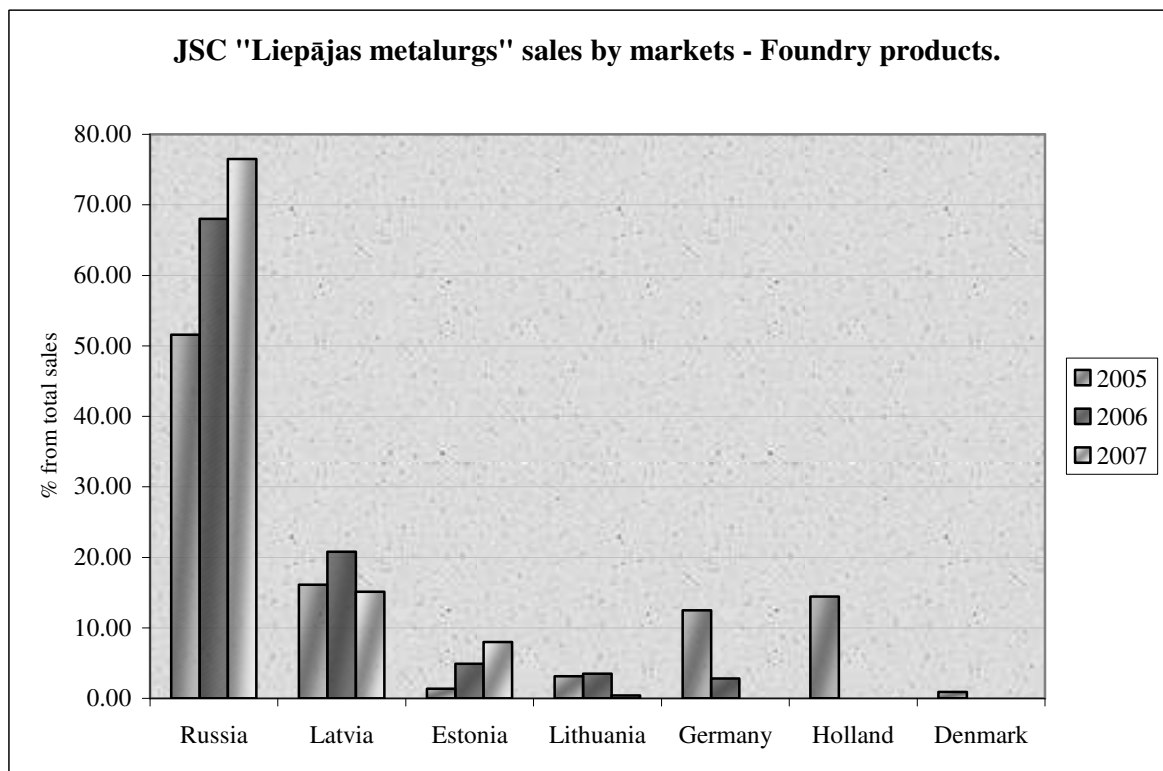
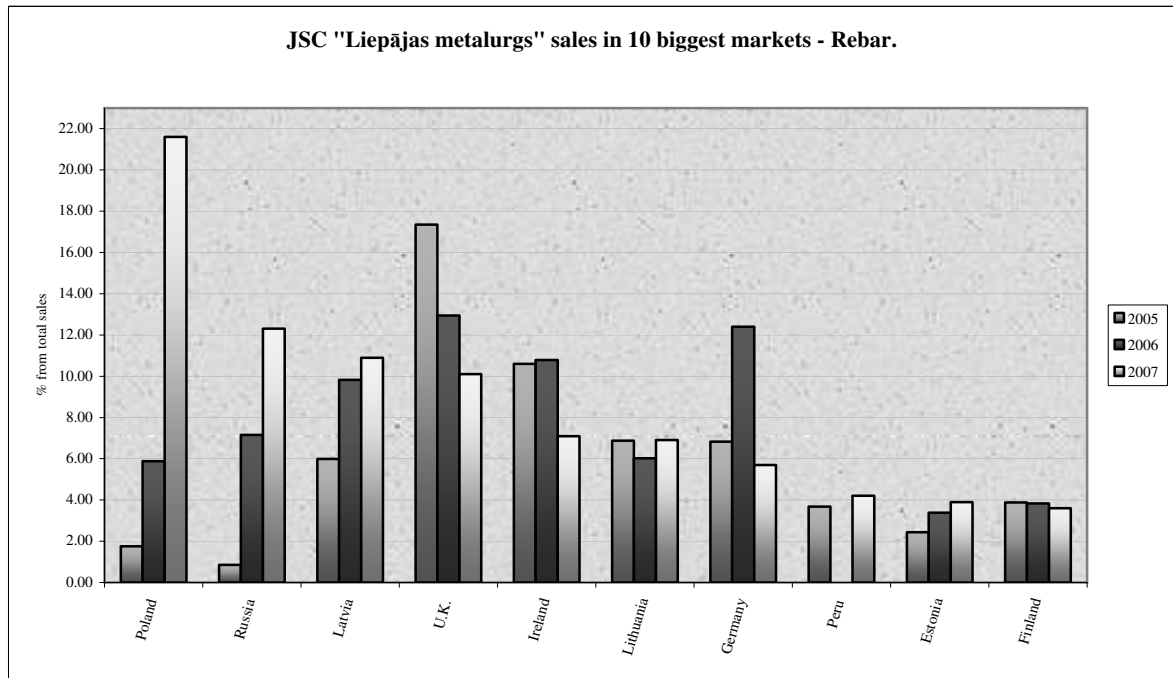
	2004	2005	2006	2007
<b>Opening Price (LVL)</b>	-	2.15	2.10	2.52
<b>Highest Price (LVL)</b>	2.50	2.95	2.61	4.45
<b>Lowest Price (LVL)</b>	0.85	1.74	1.55	2.06
<b>Average Price (LVL)</b>	1.28	3.00	1.58	2.70
<b>Ending Price (LVL)</b>	2.18	2.09	2.45	3.78
<b>Quantity of Shares</b>	730 335	613 179	660 761	701 512
<b>Turnover, LVL mio.</b>	1.02	1.41	1.28	2.27
<b>Capitalization, LVL mio.</b>	37.02	35.49	41.60	64.19

The official Bank of Latvia LVL to EUR exchange rate: 0,702804 (divide).

## FACTS AND NUMBERS







**BALANCE SHEET**

ASSETS	Enclosure Number	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
<b>I.LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>					
1. Other intangible investments		80845	115032	72625	103336
2. Advance payments for intangible investments		1840	2618		
<b>I. TOTAL:</b>		<b>82685</b>	<b>117650</b>	<b>72625</b>	<b>103336</b>
<b>II. Fixed assets</b>					
1. Land, buildings and constructions and long-term sites		52406720	74568045	26716731	38014483
2. Long-term investments in rented fixed assets		0	0	0	0
3. Technological equipment and machinery		33778140	48061963	20371570	28986133
4. Other fixed assets and inventory		3474991	4944467	2070765	2946433
5. Fixed assets formation and costs of unfinished construction sites		726416	1033597	2080148	2959784
6. Advance payments for fixed assets		364869	519162	698620	994047
<b>II. TOTAL:</b>		<b>90751136</b>	<b>129127233</b>	<b>51937834</b>	<b>73900880</b>
<b>III. Investment properties</b>					
1. Investment properties		4882333	6946934	3718574	5291054
<b>III. TOTAL:</b>					
<b>IV. Long-term financial investments</b>					
1. Share in the related companies (subsidiaries)		9068906	12903891	4930626	7015649
2. Loans to the related companies (subsidiaries)		45073	64133	3565794	5073668
3. Share in the capital of associated companies		577843	822197	571843	813659
4. Other loans		0	0	125677	178822
<b>IV. TOTAL:</b>	<b>1</b>	<b>9691822</b>	<b>13790220</b>	<b>9193940</b>	<b>13081798</b>
<b>Section 1 total amount:</b>		<b>105407976</b>	<b>149982038</b>	<b>64922973</b>	<b>92377068</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stock (Inventories)</b>					
1. Raw materials, basic and auxiliary materials		15704898	22346057	11000259	15651958
2. Unfinished products, Work-in-Process		2884425	4104167	1179043	1677627
3. Finished products and goods for sales		12512515	17803705	9916935	14110527
4. Incompleted orders		2051	2918	1128	1605
5. Advance payments for goods		3517227	5004563	2068409	2943081
6. Labour animals and productive animals			0		0
<b>I. TOTAL:</b>		<b>34621116</b>	<b>49261410</b>	<b>24165774</b>	<b>34384799</b>
<b>II. Accounts receivable (Debtors)</b>					
1. Trade accounts receivable		9246506	13156593	5094786	7249227
2. Debt of related companies (subsidiaries)		274223	390184	924560	1315530
3. Debt of associated enterprises		32101	45676	36984	52623
4. Other debtors (accounts receivable)		3546588	5046340	1781275	2534526
5. Short-term loans		200	285	0	0
6. Prepaid expenses		137696	195924	63905	90929
<b>II. TOTAL:</b>	<b>2</b>	<b>13237314</b>	<b>18835001</b>	<b>7901510</b>	<b>11242836</b>
<b>III. Short-term financial investments</b>			0		0
<b>III. TOTAL:</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. Cash</b>		2717013	3865961	3716089	5287518
<b>IV. TOTAL:</b>		<b>2717013</b>	<b>3865961</b>	<b>3716089</b>	<b>5287518</b>
<b>Section 2 total amount</b>		<b>50575443</b>	<b>71962372</b>	<b>35783373</b>	<b>50915153</b>
<b>TOTAL ASSETS</b>		<b>155983419</b>	<b>221944410</b>	<b>100706346</b>	<b>143292221</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	31.12.2007 LVL	31.12.2007 EUR	31.12. 2006 LVL	31.12. 2006 EUR
<b>1. SHAREHOLDERS' EQUITY</b>					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		63409841	90224075	25274484	35962351
3. Reserves: a) reserves stipulated by law			0		0
3. Reserves: b) other reserves		21959004	31244848	12491727	17774126
<b>TOTAL:</b>		<b>21959004</b>	<b>31244848</b>	<b>12491727</b>	<b>17774126</b>
4. Retained earnings a) undistributed profit from the previous years		0	0	0	0
4. Retained earnings b) undistributed profit of the reporting year		16434385	23384023	9467276	13470720
section 1 total amount:		<b>118784263</b>	<b>169014779</b>	<b>64214520</b>	<b>91369030</b>
<b>2. PROVISIONS</b>					
1. Provisions for anticipated taxes		148242	210929	1411009	2007685
2. Other provisions		1907030	2713459	4893992	6963523
section 2 total amount:	3	<b>2055272</b>	<b>2924389</b>	<b>6305001</b>	<b>8971208</b>
<b>3. LIABILITIES (Accounts Payable)</b>					
<b>I. Long-term Creditors (Accounts Payable).</b>					
<b>I. TOTAL:</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>II. Short-term Creditors (Accounts payable)</b>					
1. Loans from credit institutions		10957317	15590857	9145275	13012554
2. Other loans		2957069	4207530	1783024	2537015
3. Advance payments received from customers		8581044	12209726	10772142	15327377
4. Suppliers and contractors trade account payable		10140782	14429033	6329870	9006594
5. Accrued liabilities (Payable bills of exchange)		114560	163004	116104	165201
6. Payable (debt) to related companies (subsidiaries)		188108	267654	32498	46240
7. Payable (debt) to associated companies		12515	17807	46811	66606
8. Taxes and state social insurance payments	5	996386	1417730	1028008	1462724
9. Other liabilities		1196103	1701901	933093	1327672
<b>II. TOTAL:</b>	4	<b>35143884</b>	<b>50005242</b>	<b>30186825</b>	<b>42951982</b>
Section 3 total amount:		<b>35143884</b>	<b>50005242</b>	<b>30186825</b>	<b>42951982</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>155983419</b>	<b>221944410</b>	<b>100706346</b>	<b>143292221</b>

Chairman of the Board \_\_\_\_\_

/V.Terentjevs/

Member of the Board \_\_\_\_\_

/I.Segals/

Member of the Board \_\_\_\_\_

/L.Ptičkins/

**PROFIT AND LOSS STATEMENT**

No.	Parameter designation	Enclosure Number	At the end of the report period LVL	At the end of the report period EUR	12 months 2006 LVL	12months 2006 EUR
1	2	3	4	5	6	7
1	<b>Net turnover</b>	6, 7	221527583	315205353	192246290	273541827
2	<b>Production costs of goods sold</b>	8	-190896741	-271621592	-162663862	-231449824
3	<b>Gross profit or loss (from turnover)</b>		30630842	43583762	29582428	42092003
4	<b>Sales costs</b>	9	-7020115	-9988724	-5964696	-8486998
5	<b>Administration costs</b>	10	-8095476	-11518825	-7782776	-11073893
6	<b>Other operating income</b>	11	7380022	10500825	2466301	3509230
7	<b>Other operating costs</b>	12	-4820458	-6858894	-6094530	-8671735
8	<b>Interest income and other similar income</b>	13	221438	315078	204189	290535
9	<b>Interest payments and similar expenses</b>		-483105	-687396	-454594	-646829
10	<b>Profit or loss before extraordinary items and taxes</b>		17813148	25345826	11956322	17012314
11	<b>Income tax for the reporting period</b>		-2252493	-3205009	-1658180	-2359378
12	<b>Deferred tax</b>		1262767	1796756	-478676	-681095
13	<b>Other taxes</b>		-389037	-553550	-352189	-501120
14	<b>Reporting period profit or loss after taxes</b>		<b>16434385</b>	<b>23384023</b>	<b>9467277</b>	<b>13470722</b>

The JSC "Liepājas metalurģs" demonstrated profit at the rate of 0,967 per share.

In the Financial Statements the LVL amounts were converted into EUR by applying the Bank of Latvia exchange rate at EUR 0.702804.

Chairman of the Board \_\_\_\_\_ /V.Terentjevs/

Member of the Board \_\_\_\_\_ /I.Segals/

Member of the Board \_\_\_\_\_ /L.Ptičkins/

**CASH FLOW STATEMENT**  
**(by direct method)**

	Reporting year		12 months 2006	
	LVL	EUR	LVL	EUR
<b>OPERATING CASH FLOW</b>				
Cash received from buyers	229308376	326276424	204498993	290975852
Cash received from other business activities	1026728	1460902	691275	983596
VAT overpayment received	11068311	15748788	10377835	14766329
Cash paid to suppliers and employees	-221106712	-314606508	-192503732	-273908134
<i>Cash received from the core business activity</i>	<i>20296703</i>	<i>28879607</i>	<i>23064371</i>	<i>32817643</i>
Interest payment	-487811	-694093	-417658	-594274
Corporate income tax payment	0	0	0	0
Other tax payments	-15241724	-21687019	-9098498	-12945996
<i>Net cash flow from the core business activity</i>	<i>4567168</i>	<i>6498495</i>	<i>13548215</i>	<i>19277373</i>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Acquisition of subsidiary company in net cash	0	0	0	0
Acquisition of fixed assets and intangible assets	-5583277	-7944287	-9933662	-14134328
Sale of fixed assets and intangible assets	160203	227948	76170	108380
Long-term credit for students of JSC "LM" and other loans	12452	17718	-6880	-9789
Other loans granted	0	0	-140000	-199202
Investments in or related companies	-3450280	-4909306	-22500	-32015
Repayment of long term credit for students				
Received interest from loan granted				
<i>Net cash flow from investment operations</i>	<i>-8860902</i>	<i>-12607928</i>	<i>-10026872</i>	<i>-14266954</i>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Short-term borrowings in net value (credit line)	1816748	2585000	-152461	-216932
Long-term borrowings received from related companies	2691450	3829588		0
Paid liabilities for financial leasing	0	0	0	0
Loans to associated and related companies	-22000	-31303	-701000	-997433
Repayment of loans	873989	1243574	580415	825856
Other investments (sponsorship)	-2047333	-2913092	-776957	-1105510
<i>Net cash flow from financial activities</i>	<i>3312854</i>	<i>4713767</i>	<i>-1050003</i>	<i>-1494020</i>
Result of foreign currency exchange rate fluctuations	-18196	-25891	-151697	-215845
Net growth of cash and its equivalents	-999076	-1421557	2319643	3300555
Cash and its equivalents at the beginning of accounting period	<b>3716089</b>	<b>5287518</b>	<b>1396446</b>	<b>1986964</b>
Cash and its equivalents at the end of accounting period	<b>2717013</b>	<b>3865961</b>	<b>3716089</b>	<b>5287518</b>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital	Revaluation reserve of long-term investments	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous year	Equity capital TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As of 31.12.2005</b>	<b>16981033</b>	<b>26073458</b>	<b>346579</b>	<b>7987544</b>	<b>4157604</b>	<b>0</b>	<b>55546218</b>
Previous year profit put in reserves				4157604	-4157604	0	0
Undistributed profit of the reporting period					9467277		9467277
Increase of fixed capital		0					0
Reserves distribution			-346579	346579			0
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-798974					-798974
<b>As of 31.12.2006</b>	<b>16981033</b>	<b>25274484</b>	<b>0</b>	<b>12491727</b>	<b>9467277</b>	<b>0</b>	<b>64214521</b>
Previous year profit put in reserves				9467277	-9467277		0
Undistributed profit of the review period					16434385		16434385
Increase of fixed capital							0
Increase of revaluation reserve							0
Reserves distribution		38605653					38605653
Written-off revaluation reserve		-470296					-470296
<b>As of 31.12.2007</b>	<b>16981033</b>	<b>63409841</b>	<b>0</b>	<b>21959004</b>	<b>16434385</b>	<b>0</b>	<b>118784263</b>



	Share capital	Revaluation reserve of long term investments	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>As of 31.12.2005</b>	<b>24161833</b>	<b>37099188</b>	<b>493137</b>	<b>11365254</b>	<b>5915735</b>	<b>0</b>	<b>79035147</b>
Previous year profit put in reserves				5915737	-5915737	0	0
Undistributed profit of the reporting period					13470720		13470720
Reserves distribution			-493137	493137			0
Written-off revaluation reserve		-1136837					-1136837
Increase of revaluation reserve							
<b>As at 31.12.2006</b>	<b>24161833</b>	<b>35962351</b>	<b>0</b>	<b>17774128</b>	<b>13470718</b>	<b>0</b>	<b>91369030</b>
Previous year profit put in reserves				13470721	-13470721		0
Undistributed profit of the review period					23384023		23384023
Increase of revaluation reserve							0
Exchange rate difference							0
Reserves distribution		54930895					54930895
Written-off revaluation reserve		-669171					-669171
<b>As of 31.12.2007</b>	<b>24161833</b>	<b>90224075</b>	<b>0</b>	<b>31244849</b>	<b>23384020.14</b>	<b>0</b>	<b>169014778</b>

### FIXED ASSETS MOVEMENTS DESCRIPTION

LVL

	Intangible Investments	Land, Buildings and Constructions	Long-Term Investments	Tech. Equipment and Machinery	Other Fixed Assets and Inventory	Fixed Assets Formation and Unfinished Construction Sites	Advance Payments For Fixed Assets	Advance Payments for intangible Investments	TOTAL
Beginning value 31.12.2006	225289	29097027	0	32430375	3306792	2080147	698621	0	67838251
Acquired in 2007	50041	1630632	0	7395966	559842	10965757	2599106	1840	23203184
Turned into usage						-12319488	-2932858		-15252346
Reclassified		-980800			190000				-790800
Written-off		-6700	0	-454801	-223805				-685306
Revaluated		26359407		10609732	1331980				38301119
Revaluated (depreciation)		-3605209		-14343321	-1529499				-19478029
<b>on 31.12.2007</b>	<b>275330</b>	<b>52494357</b>	<b>0</b>	<b>35637951</b>	<b>3635310</b>	<b>726416</b>	<b>364869</b>	<b>1840</b>	<b>93136073</b>
Depreciation 31.12.2006	152664	2380296	0	12058805	1236027	0	0		15827792
Calculated depreciation	41821	1313248	0	4512081	568639	0	0		6435789
Moved over		0	0	0	0	0	0		0
Written-off depreciation		-698	0	-367754	-114848	0	0		-483300
Revaluated		-3605209		-14343321	-1529499				-19478029
<b>On 31.12.2007</b>	<b>194485</b>	<b>87637</b>	<b>0</b>	<b>1859811</b>	<b>160319</b>	<b>0</b>	<b>0</b>		<b>2302252</b>
<b>Balance Value</b> 31.12.2006	<b>72625</b>	<b>26716731</b>	<b>0</b>	<b>20371570</b>	<b>2070765</b>	<b>2080147</b>	<b>698621</b>	<b>0</b>	<b>52010459</b>
<b>Balance Value</b> 31.12.2007	<b>80845</b>	<b>52406720</b>	<b>0</b>	<b>33778140</b>	<b>3474991</b>	<b>726416</b>	<b>364869</b>	<b>1840</b>	<b>90833821</b>

#### Investment properties LVL

<b>On 01.01.2007</b>	<b>3718574</b>
Moved from Fixed Assets	790800
Written-off depreciation	0
Revaluated profit or loss	372959
Investment properties	
<b>Balance on 31.12.2007</b>	<b>4882333</b>

**EUR**

	Intangible Investments	Land, Buildings and Constructions	Long-Term Investments	Tech. Equipment and Machinery	Other Fixed Assets and Inventory	Fixed Assets Formation and Unfinished Construction Sites	Advance Payments For Fixed Assets	Advance Payments for intangible Investments	TOTAL
Beginning value 31.12.2006	320557	41401339	0	46144266	4705141	2959783	994048	0	96525134
Acquired in 2007	71202	2320180		10523512	796583	15602867	3698195	2618	33015157
Turned into usage						-17529052	-4173081		-21702133
Reclassified		-1395553			270346				-1125207
Written-off		-9533	0	-647124	-318446		0		-975103
Revaluated		37506057		15096289	1895237				54497583
Revaluated (depreciation)		-5129750		-20408707	-2176281				-27714738
<b>on 31.12.2007</b>	<b>391759</b>	<b>74692740</b>	<b>0</b>	<b>50708236</b>	<b>5172580</b>	<b>1033598</b>	<b>519162</b>	<b>2618</b>	<b>132520693</b>
Depreciation 31.12.2006	217221	3386856	0	17158134	1758708	0	0		22520919
Calculated depreciation	59506	1868584	0	6420113	809100	0	0		9157303
Moved over		0	0	0	0	0	0		0
Written-off depreciation		-993	0	-523267	-163414	0	0		-687674
Revaluated		-5129750		-20408707	-2176281				-27714738
<b>On 31.12.2007</b>	<b>276727</b>	<b>124697</b>	<b>0</b>	<b>2646273</b>	<b>228113</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3275810</b>
Balance Value 31.12.2006	103336	38014483	0	28986133	2946433	2959783	994048		74004216
Balance Value 31.12.2007	115032	74568045	0	48061963	4944467	1033597	519162	2618	129244884

**Investment properties**

EUR

<b>On 01.01.2007</b>	<b>5291055</b>
Moved from Fixed Assets	1125207
Written-off depreciation	0
Revaluated profit or loss	530673
Investment properties <b>Balance on 31.12.2006</b>	<b>6946935</b>

## **ENCLOSURES TO THE ANNUAL REPORT ACCOUNTING POLICY**

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

The Annual Report is prepared in accordance with the law "On Accounting" and "On Annual Report", as well as with the Latvian Accounting Standards (LAS): 1. LAS, "Financial Statements Preparation Principles", 2. LAS, "Cash Flow Statement", 3. LAS, "Events After the Balance Sheet Date", 4. LAS "Changes in Accounting Policies, Amendments in Accounting Estimates and Prior Period Errors", 5. LAS "Long-term Agreements", 6. LAS "Income", 7. LAS "Fixed Assets", 8. LAS "Provisions, Potential Liabilities and Assets", 9. LAS "Investment Properties", and is also in compliance with the European Union (EU) International Standards on preparation of the Financial Statements. Profit and Loss Statement is prepared using the turnover method. The Cash Flow Statement has been presented, by establishing the cash flow from the core activity by the direct method. As compared to the previous reporting year, the Company's methods used for reporting and valuation have not changed.

### **Accounting Principles Applied**

The items of the Annual Report are evaluated by applying the following accounting principles:

- a) The assumption that the Company will continue its operations as a going concern;
- b) By applying the same valuation methods that were used in the previous year;
- c) The concept of prudence, which implies that valuation of items has been performed with due caution:
  - The Annual Report reflects only the profit earned by the closing date of the Balance;
  - The Report has been presented, taking into account all predictable risk amounts and losses incurred in the reporting year or in the previous years, also where they have become known in the period of time between the date of drawing up the Balance and the respective Annual Report;
  - All amounts that reduce the value, as well as depreciation amounts have been calculated and taken into account, irrespective of whether the reporting year has been completed with profit or losses;
- d) Revenues and expenditures related to the reporting year have been taken into account, irrespective of the date on which the payment was effected and the date of the receipt or drawing of the invoice. The expenditures are coordinated with revenues in the reporting period;
- e) Breakdowns of the Assets and Liabilities items have been calculated separately;
- f) Elements of the opening balance sheet items in the accounting year coincide with those presented in the closing balance of the previous year;
- g) All items, which could essentially affect the assessment or decision-making by the users of this Annual Report, have been presented;
- h) Business transactions in the Annual Report are reflected taking into account their economic nature and essence, not their legal form.

### **Use of Estimates**

In the preparation of the Financial Statements, the management is obliged to base its opinion on definite estimates and assumptions, which impact the balances of the Balance Sheet and Profit and Loss Account items in the particular statements as well as the possible amount of liabilities. Future events can affect assumptions, based on which the respective estimates are

made. Any impact of changes of estimates is reflected in the financial statement at the date when they are identified.

### **Recognition of Income and Net Turnover (Revenue)**

Net turnover is the total sum of the value of goods sold and of the services rendered during the year net of discounts and value added tax.

Other income is recognized as follows:

- a) Income from rent/lease – on the date it is created;
- b) Income from fines and late payments – at the date of the receipt;

### **Long-Term Intangible Assets and Fixed (Capital) Assets**

Intangible assets and fixed assets are recorded at historical cost or revalue amount net of accumulated depreciation and accumulated impairment losses. Joint-Stock Company capitalizes Fixed Assets, which have a value greater than 500 LVL. These fixed assets are recorded as low value assets. The gradual depreciation/amortization application is not necessary or useful in this case, since it is immaterial in relation to the operating activity performance results. Those costs associated with low value assets are reflected in the Profit and Loss statement. At the moment of acquisition, such assets are not accounted for in the balance sheet.

Land depreciation is not calculated. Depreciation is calculated at the time of useful life of a particular asset, by using the straight-line method and applying the following depreciation rates fixed by the management:

Intangible assets	
Licenses and computer software	20 %
Fixed (Capital) Assets:	
Buildings and Structures	5 %
Technological Equipment and Machinery operated in harsh working environment or at the maximum load level	35 %
Transportation Vehicles and Equipment	20 %
Computers and Data Storage Equipment	35 %
Other Fixed Assets	30 %

Intangible assets consist of licences and computer softwares, which were achieved against pay. The value of intangible assets is amortized by depreciation.

Revaluation of fixed assets is performed periodically. In compliance with the International Valuation standards, "BDO Invest Rīga" conducted the Fixed Assets revaluation in order to provide support for the 2004 and 2007 (completed on December 31) financial needs of the JSC "Liepājas metalurģs".

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". The Financial Statements record the revaluation based on the market valuation methods, i.e. the accumulated depreciation is liquidated as of the revaluation date and a defined value is accepted as its new report value.

Expenditures for current repairs and maintenance are incorporated in the Profit and Loss Statement for the period, in which they are incurred.

### **Construction in progress**

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses.

Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Profit or loss from exclusion of fixed assets are calculated as a difference between book value of fixed assets and income gained as a result of their sale, and income from the respective fixed asset revaluation reserve write-off, and are included in the Profit and Loss Statement for the period in which it was created.

The real estate of the Company located in str.Brivibas 3/7, str.Brivibas 93, str.Brivibas 93<sup>a</sup>, str.Brivibas 95<sup>a</sup>, str.Brivibas 95<sup>b</sup>, str.Brivibas 97<sup>a</sup> and str.Brivibas 99<sup>a</sup> are as credit line security for the bank.

### **Investment Properties**

Investment properties refer to land and buildings kept by the company in order to receive rent from the lease of these property sites, as well as gain income resulting from an increase of value of the said real estate, instead of using it for industrial purposes, supply of goods or services, administrative functions or sale as part of daily business transactions.

Investment properties are initially valued at their cost value, including the cost of the respective transaction. After their initial recognition, investment properties are evaluated in their actual value, which corresponds to the current price of a similar property in similar location and condition and with similar lease contract terms. In cases, when such information is not available, the most recent possible prices in a less active market are used or current value for anticipated cash flow in the future is calculated, which is substantiated with the effective lease contracts and rates of rent for similar properties in the market. Actual value of property is established annually by a certified real estate appraiser from "BDO Invest Rīga".

Beginning from year 2006, profit or losses from adjustments of actual value of investment properties are reflected in the Profit and Loss Statement. Prior to year 2006, the changes in actual value of fixed assets were reflected in the long-term assets revaluation reserve under owner's equity.

The real estate which is being constructed and developed to use it as investment property is stated at historical cost and included in fixed assets as fixed assets under construction as long as it is not completed and put into operation as investment property.

The cadastral value of the JSC "Liepājas metalurģs" real estate in 2007 was:

- Land: LVL 1,945,223 (EUR 2,767,803)
- Buildings: LVL 23,401,620 (EUR 33,297,505)

The real estate cadastral value has changed going into 2008, which attributed LVL 10,293,071 (EUR 14,645,721) to land, while the cadastral value of buildings decreased by LVL 18,839,554 (EUR 26,806,270).

### **Investments in Subsidiaries and Associated Companies**

Investments in subsidiaries (i.e., in companies, in which the Company is holding more than 50% of share capital or which it is controlling in some other way) and associated companies (i.e., companies, in which the Company exercises significant influence but does not hold the controlling interest, in which it has a 20-50% stake of share capital) are entered in accounts by applying the cost method. After initial recognition, investments in subsidiaries and associated companies are entered in accounts in their initial value, less the losses due to reduction of value. The Company recognizes the revenues from its holding in equity only to the extent to which the Company receives the share of accumulated profit of the subsidiary or associated company, which is gained after the date of acquisition of capital shares/parts. The received part of profit, which exceeds such profit, is considered as recovery of investment and is regarded as reduction of initial value of investments. Dividends from affiliated companies

are not received. The Company investments in related companies were LVL 9,068,906 (EUR 12,903,891) and in associated companies were LVL 577,843 (EUR 822,197).

### **Changes in Accounting Policy**

The Company's accounting policy and valuation methods have not been changed.

### **Currency Unit and Conversion of Foreign Currency**

Values presented in these financial statements are expressed in the Latvian national currency – lats (LVL).

All transactions in foreign currencies are converted into LVL according to the official currency rate fixed by the Bank of Latvia on the date the particular transaction is performed. Assets and liabilities expressed in foreign currencies are converted into LVL according to the currency rate fixed by the Bank of Latvia on the last date of the accounting period. Profit or losses due to foreign currency rate fluctuations are reflected in the Profit and Loss account for the respective accounting period in net value.

	<b>31.12.2007</b>	<b>31.12.2006</b>
USD	0.484	0.536
EUR	0.702804	0.702804

### **Cash and Its Equivalents**

The Cash Flow Statement reflects cash and cash equivalents in the cash office, current bank account balances and short-term deposits. The Cash Flow Statement is prepared by using the direct method.

### **Long-Term and Short-Term Items**

Long-term items incorporate amounts with a term of receipt, payment or write-off longer than one year since the end of the respective accounting year. The amounts to be received, paid or written off within one year's time are presented in short-term items.

### **Capitalization of Loan Payments and Other Payments**

The value of incomplete construction sites is increased by the loan interest used for the formation of fixed assets and other direct costs incurred with regard to the particular construction site until putting the newly constructed object into use. Initial value of the respective fixed asset is not increased by the loan interest used for the formation of fixed assets in the periods, in which active development work on the unfinished construction site is not performed.

### **Accounts Receivable**

Accounts receivable are presented in the balance sheet in their net value, by deducting specific provisions for bad and doubtful debts from initial value. Specific provisions for bad and doubtful debts are formed in cases when the management considers that recovery of these specifically separated accounts receivable is unlikely. On a conservative basis, only the actual account receivable debt is presented in the Balance Sheet. The Accounts Receivable balances are recorded based on the corresponding entries in the accounting registers.

### **Financial Leasing**

The Company does not practice financial leasing. JSC "Liepājas metalurģs" uses such forms of short-term financing as factoring. The commercial contracts often have payment terms up to 90 days. The bank acts as an intermediary between the supplier and buyer by purchasing wire-invoices from the supplier and inquiring corresponding payments from the buyer. The Company operates under a recourse factoring agreement, where the Company is held responsible in front of the bank in such cases when the buyer fails to deliver the payment.

### **Creditor Obligations**

Creditor Obligations are reflected in the costs and comply with proper documentation and entries in the accounting registers. Short-term creditors include those with payment terms within a 12-month period after the end of the reporting period.

Credited advance payment is presented as loans (other loans).

### **Research and Development Costs**

Research costs are recognized in the Profit and Loss Statement for the period in which they were incurred. Development costs related to sale or development of an asset for own needs are capitalised in the balance sheet under intangible assets, which are recognized only in that case when the Company can prove that the completion of this intangible assets is technically possible in a way to enable its further sale or use to produce business benefits.

### **Evaluation of Stock**

Stock is evaluated by using the weighted average cost method. First-in-first-out (FIFO) method is used in the inventory accounting. Obsolete, slow-turnover or damaged stock is written-off. Inventories in the shops are written-off based on the production average costs. The stock inventory amount is checked during an annual cycle count.

Finished goods, work-in-process and service balances are reflected in the costs.

### **Provisions for Unused Vacations**

Reserves for unused vacations are established by taking a fraction of 1/12 from the next year anticipated wages expenses from the approved wage reserve in the 2008 budget of the Joint-Stock Company.

### **Corporate Income Tax**

Corporate income tax in the reporting period includes current and deferred taxes. The corporate income tax has been stated in the Profit or Loss Statement.

Corporate income tax for the reporting period has been calculated in accordance with the requirements of the law of the Republic of Latvia "On corporate income tax", applying a 15% rate fixed by the law.

### **Deferred tax**

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The temporary differences are related with the differences in the depreciation rates of reporting and tax depreciation and amortization on the Company's non-current assets, as well as with accruals for unused annual leave and with tax losses carried forward. The deferred tax was calculated by applying a 15% tax rate fixed by the law.



### Reclassification of Items

The classification of items information and presentation in the financial reports of 2007 was changed in comparison to the year 2006, which resulted in the reclassification of the comparative amounts. The comparative data in the 2007 Annual Report – in the Profit and Loss Statement, Balance Sheet, and enclosures – the classification of items was changed in order to improve the comparison analysis in accordance with LAS section IX, “Comparative Information”.

### Classification Has Been Changed for the Following Types of Financial Information:

Financial Information	Beginning Value	Reclassified	Amount, LVL
Balance Sheet, 2006	Debts to Suppliers and Contractors	Advance Payments Received from Customers	9 794927
Profit and Loss Statement, 2006	Other operating income (income from the currency exchange fluctuations)	Other operating costs (currency exchange fluctuations)	1104056

The currency exchange fluctuations in the Annual Report are reflected in the Net Value.

### Events After the Balance Sheet Date

There have been no events since the closing date of the Balance Sheet which could materially impact the financial condition of the company.

### Number of Employees

The average number of LM employees in 2007 was 2650.

### Council and Board Compensation

The compensation to the Council Members in: 2006 was LVL 228060 (EUR 324500)  
 2007 was LVL 228060 (EUR 324500)

The compensation to the Board Members in: 2006 was LVL 166428 (EUR 236806)  
 2007 was LVL 166284 (EUR 236601)

### Compensation to the licensed auditor

In 2007, for its commercial operation concerning the audit of the Annual Report, “BDO Invest Rīga” received 26 520,50 LVL, and for other assignments it received 20 650,- LVL.

## ENCLOSURES TO BALANCE SHEET

### 1. INVESTMENT CHANGES

#### Long-Term Financial Investments (LVL)

Company Name, Address, Registration Number	Ownership in % and LVL		Share Capital in LVL	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>Related Companies (Subsidiaries)</b>				
JSC "Liepājas osta LM" (Liepāja's Port LM) Sliežu iela 7/1, Liepāja; 40003154754	95.17 7749206	91.63 4310926	8143056	4704776
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	95 1900	95 1900	2000	2000
"Olympic Center Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 1800	90 1800	2000	2000
"Rūķis LM", Ltd. Brīvības iela 93, Liepāja; 42103038147	100 1316000	100 616000	1316000	616000
<b>Total Investments in Related Companies, LVL</b>	<b>9068906</b>	<b>4930626</b>		
<b>Associated Companies</b>				
"Elme Messer Metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003461570	49 432343	49 432343	882400	882400
"SMA LM Mineral", Ltd. Brīvības iela 93, Liepāja; 42103037781	50 13000	50 1000	26000	2000
JSC "Sātiņi LM" 42103037207	50 12500	50 12500	25000	25000
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 120000	50 120000	240000	24000
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 0	24 6000	25000	25000
<b>Total Investments in Associated Companies, LVL</b>	<b>577843</b>	<b>571843</b>		

#### Long-Term Financial Investments: Year 2007 Movement Report (LVL)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans	Total
Beginning value on 01.01.2007	4930626	571843	3691471	9193940
Invested (loans provided)	4138280	12000	12740	4163020
Repaid loans			3587526	3587526
Written-off			71612	71612
Accumulated saving		-6000		-6000
The balance on 31.12.2007	9068906	577843	45073	9691822

**Long-Term Financial Investments (EUR)**

Company Name, Address, Registration Number	Ownership in % and EUR		Share Capital in EUR	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>Related Companies (Subsidiaries)</b>				
JSC "Liepājas osta LM" (Liepāja's Port LM) Sliežu iela 7/1, Liepāja; 40003154754	95.17 11026127	91.63 6133895	11586525	6694293
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	95 2703	95 2703	2845	2845
"Olympic Center Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 2562	90 2562	2845	2845
"Rūķis LM", Ltd. Brīvības iela 93, Liepāja; 42103038147	100 1872499	100 876489	1872499	876489
<b>Total Investments in Related Companies, EUR</b>	<b>12903891</b>	<b>7015649</b>		
<b>Associated Companies</b>				
"Elme Messer Metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003461570	49 615169	49 615169	1255542	1255542
"SMA LM Mineral", Ltd. Brīvības iela 93, Liepāja; 42103037781	50 18497	50 1422	36995	2845
JSC "Sātiņi LM" 42103037207	50 17786	50 17786	35572	35572
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 170745	50 170745	341489	341489
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 0	24 8537	35572	35572
<b>Total Investments in Associated Companies, LVL</b>	<b>822197</b>	<b>813659</b>		

**Long-Term Financial Investments: Year 2007 Movement Report (EUR)**

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans	Total
Beginning value on 01.01.2007	7015649	813659	5252490	13081798
Invested (loans provided)	5888242	17075	18127	5923444
Repaid loans			5104590	5104590
Written-off			101895	101895
Accumulated saving		-8537		-8537
The balance on 31.12.2007	12903891	822197	64133	13790220

**2. ACCOUNTS RECEIVABLE (DEBTORS)**

DEBTORS	As of 31.12.2007		As of 31.12.2006	
	LVL	EUR	LVL	EUR
<b>Customers and affiliated companies debts</b>	<b>9552830</b>	<b>13592453</b>	<b>6056330</b>	<b>8617381</b>
Incl. Debts of buyers and customers	7021375	9990517	3509284	4993261
Incl. Loans to related companies	0	0	768277	1093160
Incl. Debts of related companies (subsidiaries)	274223	390184	156283	222371
Incl. Debts of associated enterprises	32101	45676	36984	52623
Incl. Debts of buyers with factoring activities (doubtful debtors debt)	2225131	3166076	1585502	2255966
	/60098/	/85512/	/516572/	/735016/
<b>Other debtors</b>	<b>3546588</b>	<b>5046340</b>	<b>1781275</b>	<b>2534526</b>
Incl. Accrued and unpaid VAT	158060	224899	148254	210946
Incl. Advance payments	952	1355	7270	10344
Incl. VAT budget overpayments	3124256	4445416	1445765	2057138
Incl. Debt for caused damages to the enterprise	0	0	0	0
Incl. Various debtors	33598	47806	151144	215059
Incl. Overpaid salaries	55	78	58	83
Incl. Dues for damages to the company	0	0	0	0
Incl. Advance prepayment for services	17344	24678	28784	40956
Incl. Advance prepayment for Corporate income tax	190278	270741	0	0
Incl. Overpaid taxes	11463	16310	0	0
Incl. Security deposit	10582	15057	0	0
<b>Short-term loans to employees</b>	<b>200</b>	<b>285</b>	<b>0</b>	<b>0</b>
<b>Future periods payments</b>	<b>137696</b>	<b>195924</b>	<b>63905</b>	<b>90929</b>
Incl. Press expenses	8963	12753	8682	12353
Incl. Miscellaneous	11406	16229	3642	5182
Incl. Property insurance	6443	9168	43281	61583
Incl. Audit expenses	9975	14193	8300	11810
Incl. Publicity and Advertisemenet	41250	58693	0	0
Incl. Rent	59659	84887	0	0
<b>Total Debtors:</b>	<b>13237314</b>	<b>18835001</b>	<b>7901510</b>	<b>11242836</b>

### 3. PROVISIONS

	Provisions for anticipated vacations (4318)		Provisions for doubtful debtors (4319)		Other provisions (4316)		Tax provisions	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>On 31.12.06</b>	<b>1906258</b>	<b>2712361</b>	<b>516572</b>	<b>735016</b>	<b>2987734</b>	<b>4251162</b>	<b>1411009</b>	<b>2007684.9</b>
Increase	772	1098	48680	69265	6000	8537	0	0
Decrease	0	0	-115123	-163805	-2987734	-4251162	-1262767	-1796756
Written-off as bad debt	0	0	-390031	-554964	-6000	-8537	0	0
Repriced	0	0	0	0		0	0	0
<b>On 31.12.2007</b>	<b>1907030</b>	<b>2713459</b>	<b>60098</b>	<b>85512</b>	<b>0</b>	<b>0</b>	<b>148242</b>	<b>210929</b>

**4. ACCOUNTS PAYABLE (CREDITORS)**

CREDITORS	As of 31.12.2007		As of 31.12.2006	
	LVL	EUR	LVL	EUR
<b>Short-term borrowing from credit institutions (credit line)</b>	<b>10925088</b>	<b>15545000</b>	<b>3345347</b>	<b>4760000</b>
<b>Credit interests</b>	<b>32229</b>	<b>45858</b>		
<b>Credit interests</b>	<b>0</b>	<b>0</b>	<b>36935</b>	<b>52554</b>
<b>Short-term borrowing from credit institutions</b>	<b>0</b>	<b>0</b>	<b>5762993</b>	<b>8200000</b>
<b>Advance payments (residents)</b>	<b>671253</b>	<b>955107</b>	<b>977215</b>	<b>1390452</b>
<b>Advance payments (non residents )</b>	<b>7909791</b>	<b>11254619</b>	<b>9794927</b>	<b>13936926</b>
<b>Other borrowing (factoring)</b>	<b>2957069</b>	<b>4207530</b>	<b>1783024</b>	<b>2537015</b>
<b>Debts to suppliers and contractors</b>	<b>10140782</b>	<b>14429033</b>	<b>6329870</b>	<b>9006594</b>
Incl. Materials and gas	6823064	9708345	3946159	5614878
Incl. Services	891327	1268244	703929	1001601
Incl. Scrap, various services related to scrap delivery, processing	2235121	3180291	1251281	1780412
Incl. Fixed assets	187351	266576	267582	380735
Incl. Medical department creditors	3919	5576	2874	4089
Incl. Other Creditors	0	0	158045	224878
<b>Debts to related enterprises (subsidiaries)</b>	<b>188108</b>	<b>267654</b>	<b>32498</b>	<b>46240</b>
<b>Debts to associated enterprises</b>	<b>12515</b>	<b>17807</b>	<b>46811</b>	<b>66606</b>
<b>Taxes and social insurance payments</b>	<b>996386</b>	<b>1417730</b>	<b>1028008</b>	<b>1462724</b>
Incl. State tax	677	963	681	969
Incl. Residents' Income tax	404368	575364	320209	455616
Incl. Real estate (land) tax		0		0
Incl. Social Security tax	567844	807969	398829	567483
Incl. Packing tax		0	2220	3159
Incl. Nature resources tax	23456	33375	20287	28866
Incl. Corporate Income tax	0	0	285299	405944
Incl. VAT for the previous period	41	58	483	687
<b>Other creditors (liabilities)</b>	<b>1196103</b>	<b>1701901</b>	<b>933093</b>	<b>1327672</b>
Incl. Payments for salaries	1161237	1652291	904312	1286720
Incl. Deductions from salaries	34866	49610	28781	40952
<b>Accrued liabilities</b>	<b>114560</b>	<b>163004</b>	<b>116104</b>	<b>165201</b>
<b>Total Creditors:</b>	<b>35143884</b>	<b>50005242</b>	<b>30186825</b>	<b>42951982</b>

**5. TAXES AND SECURITY PAYMENTS**

Tax Description	Balance as of 1.01.2007		Recorded for year 2007		Paid or allocated to a different tax category for 12 months of 2007		Balance as of 31.12.2007	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Real estate tax	0	0	354229	504022 0	365594	520193	-11365	-16171
Land tax	0	0	35620	50683	35620	50683	0	0
Income tax	320209	455616 0	4422140	6292138	4337981	6172391	404368	575364
Social security tax	398829	567483	5941331	8453752	5772316	8213266	567844	807969
Business risk duty	681	969	8227	11706	8231	11712	677	963
Corporate income tax	285299	405944	2252493	3205009	2537792	3610953	0	0
Nature resources tax	20286	28864	101394	144271	98224	139760	23456	33375
Packing tax	2220	3159	0	0	2319	3300	-99	-141
Value added tax	483	687	7435954	10580409	7436396	10581038	41	58
Excise tax	0	0	204062	290354	204062	290354	0	0
<b>TOTAL</b>	<b>1028007</b>	<b>1462722</b>	<b>20755450</b>	<b>29532345</b>	<b>20798535</b>	<b>29593649</b>	<b>984922</b>	<b>1401418</b>
VAT overpayment (pretax)	-1445764	-2057137	-25896882	-36847943	-24218390	-34459664	-3124256	-4445416

**ENCLOSURES TO PROFIT AND LOSS STATEMENT**

**6. NET TURNOVER (REVENUE)**

Product Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Rolled steel	217491995	309463229	187081161	266192510
Wire	1429	2033	1172961	1668973
Nails	0	0	310031	441134
Consumer goods	7928	11281	8362	11898
Castings	2701254	3843538	2390944	3402007
Services	204482	290952	240406	342067
Sold steam, gCal	16785	23883	15309	21783
Medical department	995599	1416610	712365	1013604
Transportation services	87106	123941	108145	153876
Organization of cultural and social events	21005	29887	0	0
Slag	0	0	206606	293974
<b>TOTAL</b>	<b>221527583</b>	<b>315205353</b>	<b>192246290</b>	<b>273541827</b>



#### 7. NET TURNOVER BY GEOGRAPHIC MARKETS

Market	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Latvia	24950640	35501562	20259581	28826787
Lithuania	15142507	21545846	11544641	16426544
Estonia	8510601	12109494	6569064	9346936
European Union countries	120288011	171154420	109681495	156062707
Russia	28879130	41091300	15024207	21377521
Other third countries	23756694	33802730	29167302	41501332
<b>Total</b>	<b>221527583</b>	<b>315205353</b>	<b>192246290</b>	<b>273541827</b>

**8. PRODUCTION COSTS OF SOLD GOODS**

Cost Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Materials	142818126	203211886	122827395	174767638
Salaries and wages	14896136	21195292	10963364	15599462
Social benefits deductions	3491016	4967268	2588940	3683730
Energy resources	18211547	25912697	13634285	19399840
Depreciation	5597705	7964817	5184169	7376408
Other costs	5882211	8369632	7465709	10622747
<b>Total</b>	<b>190896741</b>	<b>271621592</b>	<b>162663862</b>	<b>231449824</b>

**9. SALES COSTS**

Cost Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Packing materials	169150	240679	159830	227418
Transportation costs	1624507	2311465	1022119	1454344
Freight	3341638	4754723	2932692	4172845
Port handling charges	1166612	1659939	1166878	1660318
Advertising and marketing costs	91227	129804	87898	125068
Other sales costs (insurance, storage/warehousing, depreciation, and other)	381164	542348	51839	73760
Costs related to L/C	13532	19254	38865	55300
Costs related to factoring	82464	117336	284557	404888
Product certification	147162	209393	217341	309248
Guarantee payments	2659	3783	2677	0
<b>Total</b>	<b>7020115</b>	<b>9988724</b>	<b>5964696</b>	<b>8486998</b>

#### 10. ADMINISTRATION COSTS

Costs Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Salaries and social costs	4911693	6988710	5330040	7583964
Communication costs	136255	193873	152169	216517
Office supplies and office maintenance costs	1579607	2247578	1227453	1746508
Office supplies and technical books/literature	36397	51788	46317	65903
Legal and auditing fees	637724	907400	222595	316724
Presentation costs	197366	280827	107570	153058
Depreciation of fixed assets	424065	603390	481813	685558
Traveling expenses	129649	184474	127781	181816
Management training	15758	22422	18082	25728
Costs for bank account services	16744	23825	62383	88763
Costs related to stockholders	10218	14539	6573	9353
<b>Total</b>	<b>8095476</b>	<b>11518825</b>	<b>7782776</b>	<b>11073893</b>

**11. OTHER OPERATING INCOME**

Income Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Sale of current assets	1483009	2110132	1240831	1765543
Transit cargo income	0	0	8850	12592
Sale of fixed assets and liquidation	147237 19529	209499 27787	64596 38444	91912 54701
Income from fixed assets revaluation	0	0	0	0
Currency exchange income	0	0	0	0
Income from investment properties revaluation	372959	530673	77377	110098
Received fines	41952	59692	19803	28177
Written-off revaluation reserve of fixed assets	470297	669172	798974	1136838
Bad debt recovery	222698	316871	65205	92778
Other income from operating activity	1634607	2325836	152221	216591
Income due to a decrease in provisions	2987734	4251162	0	0
<b>Total</b>	<b>7380022</b>	<b>10500825</b>	<b>2466301</b>	<b>3509230</b>

**12. OTHER OPERATING COSTS**

Costs Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Sales costs of current assets	1098000	1562313	1001463	1424953
Transit cargo expenses	14574	20737	11184	15913
Costs related to the sale and liquidation of fixed assets	101917 32960	145015 46898	91116 297230	129646 422920
Currency exchange loss	374210	532453	461228	656268
Costs of reserve establishment	6772	9636	2038552	2900598
Provisions for bad debts	48681	69267	321448	457379
Bad debt write-off	291820	415222	79608	113272
Paid fines	60991	86782	54610	77703
Sponsorship and other costs	1700892	2420151	1014279	1443189
Compensations	301766	429374	351058	499511
Other costs	74344	105782	247448	352087
Costs not related to the operating activities	295248	420100	16045	22830
Training costs of the new staff	64744	92122	0	0
Write-off due to revaluation of fixed assets	304534	433313	89325	127098
Costs of infrastructure maintenance	49005	69728	19936	28366
<b>Total</b>	<b>4820458</b>	<b>6858894</b>	<b>6094530</b>	<b>8671735</b>

**13. INTEREST INCOME**

Income	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Income from loans to business persons	133613	190114	162113	230666
Income from bank accounts	13652	19425	23845	33928
Income from deposit investments	74173	105539	18231	25940
<b>Total Interest Income:</b>	<b>221438</b>	<b>315078</b>	<b>204189</b>	<b>290535</b>