

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

Quarterly Report

For 3 months of the year 2008

CONTENT

Management Statement
Statement Regarding the Management Responsibility
Information About the Company
Balance Sheet
Profit and Loss Statement
Cash Flow Statement
Statement of Changes in Shareholders' Equity
Enclosures to the Annual Report:
 Accounting Policy
 Enclosures to Balance Sheet
 Enclosures to Profit and Loss Statement

Joint-Stock Company "Liepājas Metalurģs" Management Statement Regarding the Financial Statements for 3 months of 2008.

The Company's Profit from business activities in the reporting period was 0.8 mill LVL (EUR 1.2 mill.), which was 0.8 million LVL (EUR 1.1 mill.) less than in 3 months of the year 2007.

The Net Turnover in the reporting period was 46 million LVL (EUR 65.4 mill.), which was 9.5 million LVL (EUR 13.6 mill.) less than in the first quarter 2007.

The decrease of net turnover and profit was primarily related to the following facts:

- Taking into consideration the product type ordered, the production volume when compared to the prior year Q1 has decreased by 1.2%, however, the buyers chartered the sea vessels by themselves. As a result, the ordered and produced production in Q1 of 2008 was not shipped out. The 39963 tonnes made in Q1 were sent out in Q2 of this year.
- The 3-month average price for the sold product increase of 7% while the material prices rose by 22.8% when comparing to the levels in the same period of the previous year.

The Company invested LVL 0.5 million (approx. EUR 0.7 mill.) in its development during the reporting period.

JSC "Liepājas metalurģs" continue the activities concerning the steel melting production practice and related to its modernization program coordination and financing.

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 March 31, 2008 as well as the results of its operations and cash flow for 3 months of the year 2008. 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/

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: 2008, 3 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. Average number of employees: 2626

BALANCE SHEET

ASSETS	Enclosure Number	31.03.2008 LVL	31.03.2008 EUR	31.03.2007 LVL	31.03.2007 EUR
I.LONG-TERM INVESTMENTS					
I. Intangible investments					
1. Other intangible investments		75040	106772	71796	102157
2. Advance payments for intangible investments		0	0	0	0
I. TOTAL:		75040	106772	71796	102157
II. Fixed assets					
1. Land, buildings and constructions and long-term sites		51752034	73636510	26383213	37539930
2. Long-term investments in rented fixed assets		0	0	0	0
3. Technological equipment and machinery		32515828	46265855	19566507	27840631
4. Other fixed assets and inventory		3331511	4740313	2010974	2861358
5. Fixed assets formation and costs of unfinished construction sites		1256138	1787323	2842513	4044532
6. Advance payments for fixed assets		163627	232820	910572	1295627
II. TOTAL:		89019138	126662822	51713779	73582078
III. Investment properties					
1. Investment properties		4882333	6946934	3718574	5291054
III. TOTAL:					
IV. Long-term financial investments					
1. Share in the related companies (subsidiaries)		9068906	12903891	4930626	7015649
2. Loans to the related companies (subsidiaries)		44793	63735	3565794	5073668
3. Share in the capital of associated companies		627843	893340	577843	822197
4. Other loans		0	0	128593	182971
IV. TOTAL:	1	9741542	13860966	9202856	13094484
Section 1 total amount:		103718053	147577494	64707005	92069773
2. CURRENT ASSETS					
I. Stock (Inventories)					
1. Raw materials, basic and auxiliary materials		17722356	25216641	12845027	18276827
2. Unfinished products, Work-in-Process		1322533	1881795	634985	903502
3. Finished products and goods for sales		23339129	33208589	8462255	12040704
4. Incompleted orders		6107	8689	4306	6127
5. Advance payments for goods		2300013	3272624	2249421	3200638
I. TOTAL:		44690138	63588338	24195994	34427798
II. Accounts receivable (Debtors)					
1. Trade accounts receivable		8828243	12561458	14987260	21324950
2. Debt of related companies (subsidiaries)		287103	408511	912200	1297944
3. Debt of associated enterprises		10190	14499	65393	93046
4. Other debtors (accounts receivable)		2486236	3537595	2333254	3319921
5. Short-term loans		0	0	0	0
6. Prepaid expenses		140447	199838	62277	88612
II. TOTAL:	2	11752219	16721901	18360384	26124473
III. Short-term financial investments					
III. TOTAL:		0	0	0	0
IV. Cash		2215045	3151725	3873876	5512029
IV. TOTAL:		2215045	3151725	3873876	5512029
Section 2 total amount		58657402	83461964	46430254	66064300
TOTAL ASSETS		162375455	231039458	111137259	158134073

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	31.03.2008 LVL	31.03.2008 EUR	31.03.2007 LVL	31.03.2007 EUR
1. SHAREHOLDERS' EQUITY					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		63256120	90005350	25073223	35675982
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		21959004	31244848	21959004	31244848
TOTAL:		21959004	31244848	21959004	31244848
4. Retained earnings a) undistributed profit from the previous years		16434385	23384023	0	0
4. Retained earnings b) undistributed profit of the reporting year		822452	1170244	1608487	2288671
section 1 total amount:		119452994	169966298	65621747	93371334
2. PROVISIONS			0		0
1. Provisions for anticipated taxes		148242	210929	1411009	2007685
2. Other provisions		1907030	2713459	7893992	11232139
section 2 total amount:	3	2055272	2924389	9305001	13239824
3. LIABILITIES (Accounts Payable)					
I. Long-term Creditors (Accounts Payable).		0	0	0	0
I. TOTAL:		0	0	0	0
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		4519733	6431001	4930873	7016000
2. Other loans		1009455	1436325	4895899	6966237
3. Advance payments received from customers		25269705	35955551	15108822	21497917
4. Suppliers and contractors trade account payable		7884014	11217941	8567684	12190716
5. Accrued liabilities (Payable bills of exchange)		0	0	0	0
6. Payable (debt) to related companies (subsidiaries)		35186	50065	128406	182705
7. Payable (debt) to associated companies		25137	35767	50917	72448
8. Taxes and state social insurance payments		951351	1353651	1457810	2074277
9. Other liabilities		1172608	1668471	1070100	1522615
II. TOTAL:	4	40867189	58148771	36210511	51522915
Section 3 total amount:		40867189	58148771	36210511	51522915
TOTAL LIABILITIES AND EQUITY		162375455	231039458	111137259	158134073

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	3 months 2007 LVL	3 months 2007 EUR
1	2	3	4	5	6	7
1	Net turnover	5, 6	45982056	65426571	55510222	78983930
2	Production costs of goods sold	7	-40386721	-57465127	-46118901	-65621284
3	Gross profit or loss (from turnover)		5595335	7961444	9391321	13362646
4	Sales costs	8	-1593285	-2267040	-1805470	-2568952
5	Administration costs	9	-1850312	-2632757	-1849588	-2631727
6	Other operating income	10	579982	825240	640010	910652
7	Other operating costs	11	-1399003	-1990602	-3734629	-5313898
8	Interest income and other similar income	12	24227	34472	47336	67353
9	Interest payments and similar expenses		-137810	-196086	-115469	-164298
10	Profit or loss before extraordinary items and taxes		1219134	1734671	2573511	3661776
11	Profit or loss before taxes		1219134	1734671	2573511	3661776
12	Income tax for the reporting period		-342000	-486622	-872300	-1241171
13	Deferred tax		0	0	0	0
14	Other taxes		-54682	-77805	-97697	-139010
15	Reporting period profit or loss after taxes		822452	1170244	1603514	2281595

The JSC "Liepājas metalurģs" demonstrated profit at the rate of 0,048 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 period		3 months 2007	
	LVL	EUR	LVL	EUR
OPERATING CASH FLOW				
Cash received from buyers	62744580	89277494	56027374	79719771
Cash received from other business activities	165340	235258	291921	415366
VAT overpayment received	3887586	5531537	2408076	3426383
Cash paid to suppliers and employees	-56699392	-80675967	-49727593	-70755990
<i>Cash received from the core business activity</i>	<i>10098114</i>	<i>14368322</i>	<i>8999778</i>	<i>12805530</i>
Interest payment	-170037	-241941	-152404	-216851
Corporate income tax payment	0	0	0	0
Other tax payments	-2744265	-3904737	-3563572	-5070506
<i>Net cash flow from the core business activity</i>	7183812	10221644	5283802	7518173
CASH FLOW FROM INVESTMENT ACTIVITIES				
Acquisition of fixed assets and intangible assets	-665355	-946715	-808016	-1149703
Sale of fixed assets and intangible assets		0	0	0
Long-term credit for students of JSC "LM" and other loans		0	-512	-729
Other loans granted		0		0
Investments in or related companies	-50000	-71144	983	1399
Received interest from loan granted				0
<i>Net cash flow from investment operations</i>	-715355	-1017858	-807545	-1149033
CASH FLOW FROM FINANCING ACTIVITIES				
Short-term borrowings in net value (credit line)	-6405356	-9114000	-4177467	-5944000
Long-term borrowings received from related companies	22000			
Paid liabilities for financial leasing		0		0
Loans to associated and related companies		0	-22000	-31303
Repayment of loans	599	852	57006	81112
Other investments (sponsorship)	-555727	-790728	-231285	-329089
<i>Net cash flow from financial activities</i>	-6938484	-9872573	-4373746	-6223280
Result of foreign currency exchange rate fluctuations	-31941	-45448	58704	83528
Net growth of cash and its equivalents	-501968	-714236	161215	229388
Cash and its equivalents at the beginning of accounting period	2717013	3865961	3712661	5282641
Cash and its equivalents at the end of accounting period	2215045	3151725	3873876	5512029

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
As of 31.12.2006	16981033	25274484	0	12491727	9467277	0	64214521
Previous year profit put in reserves				9467277	-9467277		0
Undistributed profit of the reporting period					16434385		16434385
Reserves distribution							0
Increase of revaluation reserve		38605653					38605653
Written-off revaluation reserve		-470296					-470296
As of 31.12.2007	16981033	63409841	0	21959004	16434385	0	118784263
Previous year profit put in reserves					-16434385	16434385	0
Undistributed profit of the review period					822452		822452
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-153721					-153721
As of 31.03.2008	16981033	63256120	0	21959004	822452	16434385	119452994

	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
As of 31.12.2006	24161833	35962351	0	17774126	13470722	0	91369032
Previous year profit put in reserves				13470722	-13470722		0
Undistributed profit of the reporting period					23384023		23384023
Reserves distribution							0
Increase of revaluation reserve		54930895					54930895
Written-off revaluation reserve		-669171					-669171
As at 31.12.2007	24161833	90224075	0	31244848	23384023	0	169014779
Previous year profit put in reserves					-23384023	23384023	0
Undistributed profit of the review period					1170244		1170244
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-218725					-218725
As of 31.03.2008	24161833	90005350	0	31244848	1170244	23384023	169966297

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^a, str.Brivibas 95^a, str.Brivibas 95^b, str.Brivibas 97^a and str.Brivibas 99^a 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.

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.

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.

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".

ENCLOSURES TO BALANCE SHEET

1. INVESTMENT CHANGES

Long-Term Financial Investments (LVL)

Company Name, Address, Registration Number	Ownership in % and LVL	
	31.03.2007	31.03.2008
Related Companies (Subsidiaries)		
JSC "Liepājas osta LM" (Liepāja's Port LM) Sliežu iela 7/1, Liepāja; 40003154754	91.63 4310926	95.17 7749206
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	95 1900	95 1900
"Olympic Center Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 1800	90 1800
"Rūķis LM", Ltd. Brīvības iela 93, Liepāja; 42103038147	100 616000	100 1316000
Total Investments in Related Companies, LVL	4930626	9068906
Associated Companies		
"Elme Messer Metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003461570	49 432343	49 432343
"SMA LM Mineral", Ltd. Brīvības iela 93, Liepāja; 42103037781	50 7000	50 13000
JSC "Sātiņi LM" 42103037207	50 12500	50 62500
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 120000	50 120000
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 6000	24 0
Total Investments in Associated Companies, LVL	577843	627843

Long-Term Financial Investments: Quarterly Movement Report for 3 months of the year 2008 (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	
	31.03.2007	31.03.2008
Related Companies (Subsidiaries)		
JSC "Liepājas osta LM" (Liepāja's Port LM) Sliežu iela 7/1, Liepāja; 40003154754	91.63 6133895	91.63 11026127
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	95 2703	95 2703
"Olympic Center Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 2562	90 2562
"Rūķis LM", Ltd. Brīvības iela 93, Liepāja; 42103038147	100 1872499	100 1872499
Total Investments in Related Companies, EUR	8011659	12903891
Associated Companies		
"Elme Messer Metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003461570	49 615169	49 615169
"SMA LM Mineral", Ltd. Brīvības iela 93, Liepāja; 42103037781	50 9960	50 18498
JSC "Sātiņi LM" 42103037207	50 17786	50 88929
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 170745	50 170745
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 8537	24 0
Total Investments in Associated Companies, LVL	822197	893341

Long-Term Financial Investments: Quarterly Movement Report for 3 months of the year 2008 (EUR)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on 01.01.2008	12903891	822197	64132
Invested (loans provided)		71144	
Repaid loans			398
Moved to another item (or written-off)			
Accumulated saving		0	
The balance on 31.03.2008	12903891	893341	63734

2. ACCOUNTS RECEIVABLE (DEBTORS)

DEBTORS	As of 31.03.2008		As of 31.03.2007	
	LVL	EUR	LVL	EUR
Customers and affiliated companies debts	9125536	12984468	15866803	22576427
Incl. Debts of buyers and customers	8306757	11819450	11739774	16704193
Incl. Debts of buyers with factoring activities	521486	742008	3149436	4481244
Incl. Debts of related companies (subsidiaries)	287103	408511	144781	206005
Incl. Loans to related companies	0	0	767419	1091939
Incl. Debts of associated enterprises (doubtful debtors debt)	10190 /59744/	14499 /85008/	65393 /556918/	93046 /792423/
Other debtors	2486236	3537595	2311023	3288289
Incl. Accrued and unpaid VAT	24708	35156	409691	582938
Incl. Advance payments	8077	11493	17952	25543
Incl. VAT budget overpayments	1968763	2801297	1847362	2628559
Incl. Debt for caused damages to the enterprise	120	171	210	299
Incl. Various debtors	54055	76913	31964	45481
Incl. Overpaid salaries	110	157	102	145
Incl. Advance prepayment for services	6660	9476	0	0
Incl. Advance prepayment for Corporate income tax	401697	571563	0	0
Incl. Overpaid taxes	11464	16312	2542	3617
Incl. Security deposit	10582	15057	1200	1707
Short-term loans to employees	0	0	0	0
Future periods payments	140447	199838	62275	88609
Incl. Press expenses	6579	9361	6300	8964
Incl. Miscellaneous	21179	30135	2393	3405
Incl. Property insurance	71439	101649	53582	76240
Incl. Audit expenses	0	0	0	0
Incl. Rent	0	0	0	0
Incl. Publicity and Advertisemenet	41250	58693	0	0
Total Debtors:	11752219	16721901	18240101	25953326

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
On 31.12.2007	1907030	2713459	60098	85512	0	0	148242	210929
Increase	0	0	0	0		0	0	0
Decrease	0	0	-354	-504		0		0
Written-off as bad debt	0	0		0		0	0	0
Repriced	0	0	0	0	0	0	0	0
On 31.03.2008	1907030	2713459	59744	85008	0	0	148242	210929

4. ACCOUNTS PAYABLE (CREDITORS)

CREDITORS	As of 31.03.2008		As of 31.03.2007	
	LVL	EUR	LVL	EUR
Short-term borrowing from credit institutions (credit line)	4519733	6431001	4930873	7016000
Credit interests	0	0	0	0
Credit interests	0	0	0	0
Short-term borrowing from credit institutions	0	0	0	0
Advance payments (residents)	152879	217527	2610789	3714818
Advance payments (non residents)	25116826	35738024	12400019	17643637
Other borrowing (factoring)	1009455	1436325	4895899	6966237
Debts to suppliers and contractors	7884014	11217941	8567684	12190716
Incl. Materials and gas	5030689	7158026	4087600	5816131
Incl. Services	887541	1262857	739041	1051561
Incl. Scrap, various services related to scrap delivery, processing	1787328	2543139	3448277	4906456
Incl. Fixed assets	155030	220588	135512	192816
Incl. Medical department creditors	4029	5733	1140	1622
Incl. Other Creditors	19397	27599	156114	222130
Debts to related enterprises (subsidiaries)	35186	50065	128406	182705
Debts to associated enterprises	25137	35767	50917	72448
Taxes and social insurance payments	951351	1353651	1457664	2074069
Incl. State tax	667	949	675	960
Incl. Residents' Income tax	365652	520276	349377	497119
Incl. VAT for the previous period	42	60		0
Incl. Social Security tax	560490	797505	414559	589864
Incl. Packing tax	0	0	0	0
Incl. Nature resources tax	24500	34860	26661	37935
Incl. Corporate Income tax	0	0	657599	935679
Incl. Real estate (land) tax	0	0	8793	12511
Other creditors (liabilities)	1172608	1668471	1069752	1522120
Incl. Payments for salaries	1136966	1617757	1032449	1469043
Incl. Deductions from salaries	35642	50714	37303	53077
Total Creditors:	40867189	58148771	36112003	51382751

ENCLOSURES TO PROFIT AND LOSS STATEMENT

5. NET TURNOVER (REVENUE)

Product Description	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Rolled steel	45435161	64648410	54562971	77636113
Wire	0	0	567	807
Consumer goods	0	0	1947	2770
Castings	199192	283425	653456	929784
Services	62462	88875	39973	56876
Sold steam, gCal	6422	9138	4916	6995
Medical department	264616	376515	217836	309953
Transportation services	14203	20209	28556	40632
TOTAL	45982056	65426571	55510222	78983930

6. NET TURNOVER BY GEOGRAPHIC MARKETS

Market	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Latvia	4531938	6448367	6856119	9755378
Lithuania	3884372	5526963	3873368	5511306
Estonia	807952	1149612	1953139	2779066
European Union countries	29744796	42323032	37861297	53871772
Russia	4724421	6722245	3321925	4726673
Other third countries	2288577	3256352	1644374	2339733
Total	45982056	65426571	55510222	78983930

7. PRODUCTION COSTS OF SOLD GOODS

Cost Description	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Materials	29238574	41602743	35619974	50682657
Salaries and wages	3409530	4851324	3311363	4711645
Social benefits deductions	801330	1140190	778166	1107230
Energy resources	4356402	6198602	3980435	5663649
Depreciation	1764499	2510656	1444982	2056024
Other costs	816386	1161613	983981	1400079
Total	40386721	57465127	46118901	65621284

8. SALES COSTS

Cost Description	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Packing materials	32597	46381	42181	60018
Transportation costs	418781	595872	320866	456551
Freight	730680	1039664	999523	1422193
Port handling charges	278581	396385	318804	453617
Advertising and marketing costs	9309	13246	11467	16316
Other sales costs (insurance, storage/warehousing, depreciation, and other)	71455	101671	46239	65792
Costs related to L/C	3817	5431	1878	2672
Costs related to factoring	2222	3162	31217	44418
Product certification	45843	65229	33295	47375
Total	1593285	2267040	1805470	2568952

9. ADMINISTRATION COSTS

Costs Description	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Salaries and social costs	1100955	1566518	1307078	1859804
Communication costs	24091	34278	23657	33661
Office supplies and office maintenance costs	335449	477301	276909	394006
Office supplies and technical books/literature	8303	11814	11256	16016
Legal and auditing fees	124063	176526	20703	29458
Presentation costs	34560	49174	18004	25617
Depreciation of fixed assets	135970	193468	110832	157700
Management traveling expenses	22605	32164	27163	38649
Management training	4421	6291	1601	2278
Costs for bank account services	2580	3671	52284	74393
Costs related to stockholders	57315	81552	101	144
Total	1850312	2632757	1849588	2631727

10. OTHER OPERATING INCOME

Income Description	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Sale of current assets	357236	508301	283345	403164
Sale of fixed assets and liquidation	0 4533	0 6450	97721 6244	139044 8884
Received fines	8332	11855	163	232
Written-off revaluation reserve of fixed assets	153722	218727	196441	279510
Bad debt recovery	9674	13765	53750	76479
Other income from operating activity	46485	66142	2346	3338
Total	579982	825240	640010	910652

11. OTHER OPERATING COSTS

Costs Description	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Sales costs of current assets	207443	295165	173545	246932
Costs related to the sale and liquidation of fixed assets	0 88797	0 126347	62916 17280	89521 24587
Currency exchange loss	130245	185322	17766	25279
Costs of reserve establishment	0	0	3000000	4268615
Provisions for bad debts	0	0	40348	57410
Paid compensations and other benefits	141784	201740	77484	110250
Other costs	88966	126587	4585	6524
Paid fines	16083	22884	1632	2322
Sponsorship	551180	784258	333979	475209
Costs not related to the operating activities	29151	41478	0	0
Costs of infrastructure maintenance	25235	35906	5094	7248
Training costs of the new staff	3035	4318	0	0
Costs of previous period	106422	151425	0	0
Costs of representative auto maintenance	10662	15171	0	0
Total	1399003	1990602	3734629	5313898

12. INTEREST INCOME

Income	For 3 months of year 2008		For 3 months of year 2007	
	LVL	EUR	LVL	EUR
Income from loans to business persons	630	896	39110	55649
Income from bank accounts	864	1229	3641	5181
Income from deposit investments	22733	32346	4585	6524
Total Interest Income:	24227	34472	47336	67353