

Joint-Stock Company

"Liepājas metalurģs "

Reg.nr. 40003014197

Quarterly Report

For 6 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 Quarterly 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 6 months of 2008.**

The Company's Profit from business activities in the reporting period was 4.6 mill LVL (EUR 6.6 mill.), which was 3.0 million LVL (EUR 4.3 mill.) less than in 6 months of the year 2007.

The Net Turnover in the reporting period was 126.4 million LVL (EUR 179.9 mill.), which was 4.4 million LVL (EUR 6.3 mill.) more than in the first 6 months, 2007.

The decrease of profit was primarily related to the fact that the 6-month average price for the sold product increased by 11.4% while the materials prices rose by 31.2% when comparing to the levels in the same period of the previous year.

The Company invested LVL 0.7 million (approx. EUR 1.0 mill.) in its development during the reporting period.

JSC "Liepājas metalurģs" continued the activities concerning the steel melting production practice and related to its modernization program 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 June 30, 2008 as well as the results of its operations and cash flow for 6 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  
Registration, place, date: 40003014197  
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, 6 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: 2638

### BALANCE SHEET

ASSETS	Enclosure Number	30.06.2008 LVL	30.06.2008 EUR	30.06.2007 LVL	30.06.2007 EUR
<b>I.LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>					
1. Other intangible investments		68327	97221	78265	111361
2. Advance payments for intangible investments					
<b>I. TOTAL:</b>		<b>68327</b>	<b>97221</b>	<b>78265</b>	<b>111361</b>
<b>II. Fixed assets</b>					
1. Land, buildings and constructions and long-term sites		51152443	72783369	26055725	37073957
2. Long-term investments in rented fixed assets		0	0	0	0
3. Technological equipment and machinery		31122856	44283834	19045780	27099703
4. Other fixed assets and inventory		3173258	4515139	2106519	2997307
5. Fixed assets formation and costs of unfinished construction sites		1935937	2754590	3789416	5391853
6. Advance payments for fixed assets		187156	266299	1237770	1761188
<b>II. TOTAL:</b>		<b>87571650</b>	<b>124603232</b>	<b>52235210</b>	<b>74324008</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	5630626	8011659
2. Loans to the related companies (subsidiaries)		43278	61579	2865794	4077657
3. Share in the capital of associated companies		649843	924643	577843	822197
4. Other loans		0	0	128828	183306
<b>IV. TOTAL:</b>	<b>1</b>	<b>9762027</b>	<b>13890113</b>	<b>9203091</b>	<b>13094819</b>
<b>Section 1 total amount:</b>		<b>102284337</b>	<b>145537500</b>	<b>65235140</b>	<b>92821242</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stock (Inventories)</b>					
1. Raw materials, basic and auxiliary materials		27739602	39469898	11031970	15697079
2. Unfinished products, Work-in-Process		1552479	2208979	911391	1296793
3. Finished products and goods for sales		19623598	27921864	9751344	13874912
4. Incompleted orders		1319	1877	260	370
5. Advance payments for goods		3404744	4844514	1906383	2712539
<b>I. TOTAL:</b>		<b>52321742</b>	<b>74447132</b>	<b>23601348</b>	<b>33581693</b>
<b>II. Accounts receivable (Debtors)</b>					
1. Trade accounts receivable		8437916	12006073	9636090	13710921
2. Debt of related companies (subsidiaries)		174786	248698	921108	1310619
3. Debt of associated enterprises		23126	32905	69253	98538
4. Other debtors (accounts receivable)		6020978	8567080	2435023	3464726
5. Short-term loans		0	0	0	0
6. Prepaid expenses		112350	159860	51601	73422
<b>II. TOTAL:</b>	<b>2</b>	<b>14769156</b>	<b>21014616</b>	<b>13113075</b>	<b>18658225</b>
<b>III. Short-term financial investments</b>					
<b>III. TOTAL:</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. Cash</b>		9563068	13607020	4184558	5954090
<b>IV. TOTAL:</b>		<b>9563068</b>	<b>13607020</b>	<b>4184558</b>	<b>5954090</b>
<b>Section 2 total amount</b>		<b>76653966</b>	<b>109068767</b>	<b>40898981</b>	<b>58194007</b>
<b>TOTAL ASSETS</b>		<b>178938303</b>	<b>254606267</b>	<b>106134121</b>	<b>151015249</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	30.06.2008 LVL	30.06.2008 EUR	30.06.2007 LVL	30.06.2007 EUR
<b>1. SHAREHOLDERS' EQUITY</b>					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		63196875	89921052	25062721	35661039
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		38393389	54628871	21959004	31244848
<b>TOTAL:</b>		<b>38393389</b>	<b>54628871</b>	<b>21959004</b>	<b>31244848</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		4558548	6486229	7633044	10860843
section 1 total amount:		<b>123129845</b>	<b>175197985</b>	<b>71635802</b>	<b>101928563</b>
<b>2. PROVISIONS</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
1. Provisions for anticipated taxes		148242	210929	1411009	2007685
2. Other provisions		1907030	2713459	11893992	16923626
section 2 total amount:	<b>3</b>	<b>2055272</b>	<b>2924389</b>	<b>13305001</b>	<b>18931311</b>
<b>3. LIABILITIES (Accounts Payable)</b>					
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		0	0	0	0
2. Other loans		3499476	4979306	3468049	4934589
3. Advance payments received from customers		37507143	53367856	6732527	9579523
4. Suppliers and contractors trade account payable		10216950	14537410	7821117	11128447
5. Accrued liabilities (Payable bills of exchange)		0	0	0	0
6. Payable (debt) to related companies (subsidiaries)		182151	259178	54612	77706
7. Payable (debt) to associated companies		38468	54735	48783	69412
8. Taxes and state social insurance payments		1037406	1476096	2041502	2904796
9. Other liabilities		1271592	1809312	1026728	1460902
II. TOTAL:		<b>53753186</b>	<b>76483893</b>	<b>21193318</b>	<b>30155375</b>
Section 3 total amount:	<b>4</b>	<b>53753186</b>	<b>76483893</b>	<b>21193318</b>	<b>30155375</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>178938303</b>	<b>254606267</b>	<b>106134121</b>	<b>151015249</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	6 months 2007 LVL	6 months 2007 EUR
1	2	3	4	5	6	7
1	Net turnover	5,6	126421211	179881177	122029030	173631667
2	Production costs of goods sold	7	-112633697	-160263312	-96927555	-137915486
3	Gross profit or loss (from turnover)		13787514	19617865	25101475	35716181
4	Sales costs	8	-3667019	-5217698	-3034582	-4317821
5	Administration costs	9	-3848486	-5475902	-3991228	-5679006
6	Other operating income	10	2108587	3000249	1214153	1727584
7	Other operating costs	11	-2847122	-4051090	-8969795	-12762868
8	Interest income and other similar income	12	70666	100549	110827	157693
9	Interest payments and similar expenses		-193377	-275151	-218286	-310593
10	Profit or loss before extraordinary items and taxes		5410763	7698822	10212564	14531169
11	Profit or loss before taxes		5410763	7698822	10212564	14531169
12	Income tax for the reporting period		-752000	-1070000	-2364820	-3364836
13	Deferred tax		0	0	0	0
14	Other taxes		-100215	-142593	-214700	-305491
15	Reporting period profit or loss after taxes		4558548	6486229	7633044	10860843

The JSC "Liepājas metalurģs" demonstrated profit at the rate of 0.27 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		6 months 2007	
	LVL	EUR	LVL	EUR
<b>OPERATING CASH FLOW</b>				
Cash received from buyers	159515822	226970566	120066880	170839779
Cash received from other business activities	552698	786418	926126	1317759
VAT overpayment received	5723922	8144407	5269803	7498254
Cash paid to suppliers and employees	-136665925	-194458092	-105139484	-149600008
<i>Cash received from the core business activity</i>	<i>29126517</i>	<i>41443300</i>	<i>21123325</i>	<i>30055784</i>
Interest payment	-225604	-321006	-255222	-363148
Corporate income tax payment	-6322	-8995	0	0
Other tax payments	-8564865	-12186705	-7370697	-10487557
<i>Net cash flow from the core business activity</i>	<i>20329726</i>	<i>28926594</i>	<i>13497406</i>	<i>19205079</i>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Acquisition of fixed assets and intangible assets	-1333166	-1896924	-3135382	-4461247
Sale of fixed assets and intangible assets	3275	4660	79543	113179
Long-term credit for students of JSC "LM" and other loans	0	0	-1261	-1794
Investments in related or associated companies	-72000	-102447	-6000	-8537
<i>Net cash flow from investment operations</i>	<i>-1401891</i>	<i>-1994711</i>	<i>-3063100</i>	<i>-4358399</i>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Short-term borrowings in net value (credit line)	-10925086	-15544997	-9108340	-12960000
Long-term borrowings received from related companies	23242	33070	79840	113602
Loans to associated and related companies	0	0	-22000	-31303
Other investments (sponsorship)	-1129125	-1606600	-925112	-1316316
<i>Net cash flow from financial activities</i>	<i>-12030969</i>	<i>-17118527</i>	<i>-9975612</i>	<i>-14194017</i>
Result of foreign currency exchange rate fluctuations	-50811	-72298	13203	18786
Net growth of cash and its equivalents	6846055	9741059	471897	671449
Cash and its equivalents at the beginning of accounting period	2717013	3865961	3712661	5282641
Cash and its equivalents at the end of accounting period	<b>9563068</b>	13607020	<b>4184558</b>	5954090

### 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 31.12.2006</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 reporting period					16434385		16434385
Reserves distribution							0
Increase of revaluation reserve		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>
Previous year profit put in reserves				16434385	-16434385		0
Undistributed profit of the reporting period					4558548		4558548
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-212966					-212966
<b>As of 30.06.2008</b>	<b>16981033</b>	<b>63196875</b>	<b>0</b>	<b>38393389</b>	<b>4558548</b>	<b>0</b>	<b>123129845</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 31.12.2006</b>	<b>24161833</b>	<b>35962351</b>	<b>0</b>	<b>17774126</b>	<b>13470722</b>	<b>0</b>	<b>91369032</b>
Previous year profit put in reserves				13470722	-13470722		0
Undistributed profit of the reporting period					23384023		23384023
Reserves distribution		0					0
Increase of revaluation reserve		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>31244848</b>	<b>23384023</b>	<b>0</b>	<b>169014779</b>
Previous year profit put in reserves				23384023	-23384023	0	0
Undistributed profit of the reporting period					6486229		6486229
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-303023					-303023
<b>As of 30.06.2008</b>	<b>24161833</b>	<b>89921052</b>	<b>0</b>	<b>54628871</b>	<b>6486229</b>	<b>0</b>	<b>175197985</b>

## ACCOUNTING POLICY

### Basis for Preparation of the Annual Report

The 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 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 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.

### **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 Report 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.

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

<b>Financial Information</b>	<b>Beginning Value</b>	<b>Reclassified</b>
Balance Sheet, 2006	Debts to Suppliers and Contractors	Advance Payments Received from Customers
Profit and Loss Statement, 2006	Other operating income (income from the currency exchange fluctuations)	Other operating costs (currency exchange fluctuations)

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

### **Number of Employees**

The average number of LM employees for 6 months of the year 2008 was 2638.

## ENCLOSURES TO BALANCE SHEET

### 1. INVESTMENT CHANGES

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

Company Name, Address, Registration Number	Ownership in % and LVL	
	30.06.2007	30.06.2008
<b>Related Companies (Subsidiaries)</b>		
LSEZ 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
"Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 1800	90 1800
"Rūķis LM", Ltd. Vānes iela 25, Liepāja; 42103038147	100 1316000	100 1316000
<b>Total Investments in Related Companies, LVL</b>	<b>5630626</b>	<b>9068906</b>
<b>Associated Companies</b>		
"Elme Messer Metalurģs", Ltd. LSEZ 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", Brīvības iela 93, Liepāja 42103037207	50 12500	50 84500
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 120000	50 120000
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 6000	24 0
<b>Total Investments in Associated Companies, LVL</b>	<b>577843</b>	<b>649843</b>

#### Long-Term Financial Investments: Quarterly Movement Report for 6 months of the year 2008 (LVL)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on 31.12.2007	9068906	577843	45073
Invested (loans provided)		72000	
Written off (Repaid loans)			1795
Moved to another item (or written-off )			
Accumulated saving			
The balance on 30.06.2008	9068906	649843	43278

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

Company Name, Address, Registration Number	Ownership in % and EUR	
	30.06.2007	30.06.2008
<b>Related Companies (Subsidiaries)</b>		
LSEZ 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
"Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 2562	90 2562
"Rūķis LM", Ltd. Vānes iela 25, Liepāja; 42103038147	100 1872499	100 1872499
<b>Total Investments in Related Companies, EUR</b>	<b>8011659</b>	<b>12903891</b>
<b>Associated Companies</b>		
"Elme Messer Metalurģs", Ltd. LSEZ 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", Brīvības iela 93, Liepāja 42103037207	50 17786	50 120232
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 170745	50 170745
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 8537	24 0
<b>Total Investments in Associated Companies, EUR</b>	<b>822197</b>	<b>924644</b>

**Long-Term Financial Investments: Quarterly Movement Report for 6 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 31.12.2007	12903891	822197	64132
Invested (loans provided)		102447	
Written off (Repaid loans)			2554
Moved to another item (or written-off )			
Accumulated saving			
The balance on 30.06.2008	12903891	924644	61578

**2. ACCOUNTS RECEIVABLE (DEBTORS)**

DEBTORS	As of 30.06.2008		As of 30.06.2007	
	LVL	EUR	LVL	EUR
<b>Customers and affiliated companies debts</b>	<b>8635828</b>	<b>12287676</b>	<b>10626451</b>	<b>15120078</b>
Incl. Debts of buyers and customers	5685708	8090034	6775404	9640531
Incl. Debts of buyers with factoring activities	2752208	3916039	2860686	4070389
Incl. Debts of related companies (subsidiaries)	174786	248698	921108	1310619
Incl. Loans to related companies	0	0	0	0
Incl. Debts of associated enterprises	23126	32905	69253	98538
(doubtful debtors debt)	/30905/	/43975/	/556918/	/792423/
<b>Other debtors</b>	<b>6020978</b>	<b>8567080</b>	<b>2435023</b>	<b>3464726</b>
Incl. Accrued and unpaid VAT	133820	190409	201785	287114
Incl. Advance payments	1579	2247	13115	18661
Incl. VAT budget overpayments	5117939	7282171	2162964	3077621
Incl. Debt for caused damages to the enterprise	0	0	210	299
Incl. Various debtors	36318	51676	56815	80840
Incl. Overpaid salaries	692	985	134	191
Incl. Advance prepayment for services	5266	7493	0	0
Incl. Advance prepayment for Corporate income tax	640543	911411	0	0
Incl. Overpaid taxes	46998	66872	0	0
Incl. Security deposit	37823	53817	0	0
<b>Short-term loans to employees</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Future periods payments</b>	<b>112350</b>	<b>159860</b>	<b>51601</b>	<b>73422</b>
Incl. Press expenses	8283	11786	7148	10171
Incl. Miscellaneous	9663	13749	11498	16360
Incl. Property insurance	53154	75631	32955	46891
Incl. Audit expenses	0	0	0	0
Incl. Rent	0	0	0	0
Incl. Publicity and Advertisemenet	41250	58693	0	0
<b>Total Debtors:</b>	<b>14769156</b>	<b>21014616</b>	<b>13113075</b>	<b>18658225</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 31.12.2007</b>	1907030	2713459	60098	85512	0	0	148242	210929
Increase	0	0	0	0	0	0	0	0
Decrease	0	0	-29193	-41538	0	0	0	0
Written-off as bad debt	0	0	0	0	0	0	0	0
Repriced	0	0	0	0	0	0	0	0
<b>On 30.06.2008</b>	<b>1907030</b>	<b>2713459</b>	<b>30905</b>	<b>43974</b>	<b>0</b>	<b>0</b>	<b>148242</b>	<b>210929</b>

**4. ACCOUNTS PAYABLE (CREDITORS)**

CREDITORS	As of 30.06.2008		As of 30.06.2007	
	LVL	EUR	LVL	EUR
<b>Short-term borrowing from credit institutions (credit line)</b>	0	0	0	0
<b>Credit interests</b>	0	0	0	0
<b>Credit interests</b>	0	0	0	0
<b>Short-term borrowing from credit institutions</b>	0	0	0	0
<b>Advance payments (residents)</b>	889204	1265223	1221654	1738257
<b>Advance payments (non residents )</b>	36617939	52102633	5510873	7841266
<b>Other borrowing (factoring)</b>	3499476	4979306	3468049	4934589
<b>Debts to suppliers and contractors</b>	10216950	14537410	7821117	11128447
Incl. Materials and gas	6127683	8718907	3672628	5225679
Incl. Services	974593	1386721	905152	1287915
Incl. Scrap, various services related to scrap delivery, processing	3053524	4344773	3043482	4330485
Incl. Fixed assets	56561	80479	107596	153095
Incl. Medical department creditors	4589	6530	1285	1828
Incl. Other Creditors	0	0	90974	129444
<b>Debts to related enterprises (subsidiaries)</b>	182151	259178	54612	77706
<b>Debts to associated enterprises</b>	38468	54735	48783	69412
<b>Taxes and social insurance payments</b>	1037406	1476096	2041502	2904796
Incl. State tax	684	973	682	970
Incl. Residents' Income tax	415887	591754	353529	503026
Incl. VAT for the previous period	33	47	0	0
Incl. Social Security tax	599792	853427	378445	538479
Incl. Packing tax	0	0	0	0
Incl. Nature resources tax	21010	29895	30073	42790
Incl. Corporate Income tax	0	0	1278773	1819530
Incl. Real estate (land) tax	0	0	0	0
<b>Other creditors (liabilities)</b>	1271592	1809312	1026728	1460902
Incl. Payments for salaries	1232089	1753105	995456	1416406
Incl. Deductions from salaries	39503	56208	31272	44496
<b>Total Creditors:</b>	<b>53753186</b>	<b>76483893</b>	<b>21193318</b>	<b>30155375</b>

## ENCLOSURES TO PROFIT AND LOSS STATEMENT

### 5. NET TURNOVER (REVENUE)

Product Description	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Rolled steel	125218551	178169946	119912693	170620391
Consumer goods	489818	696948	1484585	2112374
Services	114388	162759	98956	140802
Sold steam, gCal	10892	15498	8558	12177
Medical department	557736	793587	476730	678326
Transportation services	29826	42439	47508	67598
<b>TOTAL</b>	<b>126421211</b>	<b>179881177</b>	<b>122029030</b>	<b>173631667</b>

**6. NET TURNOVER BY GEOGRAPHIC MARKETS**

Market	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
European Union countries	76767196	109229879	102673571	146091330
Other third countries	49654015	70651298	19355459	27540337
<b>Total</b>	<b>126421211</b>	<b>179881177</b>	<b>122029030</b>	<b>173631667</b>

#### 7. PRODUCTION COSTS OF SOLD GOODS

Cost Description	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Materials	96532778	137353769	83093518	118231424
Salaries and wages	8084916	11503799	6712596	9551164
Social benefits deductions	1900279	2703853	1574584	2240431
Depreciation	4089472	5818794	2796639	3979259
Other costs	2026252	2883097	2750218	3913208
<b>Total</b>	<b>112633697</b>	<b>160263312</b>	<b>96927555</b>	<b>137915486</b>

#### 8. SALES COSTS

Cost Description	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Packing materials	98086	139564	81238	115591
Transportation costs	877758	1248937	763435	1086270
Freight	1505148	2141633	1302134	1852770
Port handling charges	961450	1368020	525365	747527
Advertising and marketing costs	20468	29123	26488	37689
Other sales costs (insurance, storage/warehousing, depreciation, and other)	187254	266438	285887	406781
Bank services	16855	23983	50035	71193
<b>Total</b>	<b>3667019</b>	<b>5217698</b>	<b>3034582</b>	<b>4317821</b>

**9. ADMINISTRATION COSTS**

Costs Description	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Salaries and social costs	2362171	3361067	2545504	3621926
Communication costs	61431	87408	57365	81623
Other office supplies and office maintenance costs	631949	899182	720664	1025412
Office supplies and technical books/literature	18271	25997	19114	27197
Legal and auditing fees, translation	230084	327380	295469	420415
Presentation costs	72463	103106	44796	63739
Depreciation of fixed assets	279571	397794	218998	311606
Management traveling expenses	81449	115891	69031	98222
Management training	18376	26147	5795	8246
Costs for bank account services	6383	9082	9164	13039
Costs related to stockholders	86338	122848	5328	7581
<b>Total</b>	<b>3848486</b>	<b>5475902</b>	<b>3991228</b>	<b>5679006</b>

**10. OTHER OPERATING INCOME**

Income Description	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Sale of current assets	780414	1110429	676224	962180
Sale of fixed assets and liquidation	3275 6930	4660 9861	103896 7296	147831 10381
Received fines	30717	43706	9587	13641
Written-off revaluation reserve of fixed assets	212966	303023	211762	301310
Bad debt recovery	64247	91415	85220	121257
Other income from operating activity	1010038	1437155	120168	170984
<b>Total</b>	<b>2108587</b>	<b>3000249</b>	<b>1214153</b>	<b>1727584</b>

#### 11. OTHER OPERATING COSTS

Costs Description	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Sales costs of current assets	570950	812389	412983	587622
Costs related to the sale and liquidation of fixed assets	4600 103606	6545 147418	69737 20292	99227 28873
Currency exchange loss	244854	348396	144735	205939
Costs of reserve establishment	0	0	7000000	9960103
Provisions for bad debts	0	0	40348	57410
Doubtful debts write-off	141511	201352	102699	146128
Paid compensations and other benefits	218204	310476	208031	296001
Other costs	194250	276393	8986	12786
Paid fines	16213	23069	1994	2837
Costs not related to the operating activities	1183945	1684602	948238	1349221
Costs of infrastructure maintenance	44458	63258	11752	16722
Training costs of the new staff	2901	4128	0	0
Costs of previous period	110882	157771	0	0
Costs of auto maintenance	10748	15293	0	0
<b>Total</b>	<b>2847122</b>	<b>4051090</b>	<b>8969795</b>	<b>12762868</b>

## 12. INTEREST INCOME

Income	For 6 months of year 2008		For 6 months of year 2007	
	LVL	EUR	LVL	EUR
Income from loans to business persons	1881	2676	72789	103569
Income from bank accounts	1804	2567	9294	13224
Income from deposit investments	66981	95305	28744	40899
<b>Total Interest Income:</b>	<b>70666</b>	<b>100549</b>	<b>110827</b>	<b>157693</b>