

Joint-Stock Company  
"Liepājas metalurģs "  
Reg.No. 40003014197

Annual Report  
(audited)

For the year 2011  
(01.01.2011. - 31.12.2011.)

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Rīga, LV-1010  
Latvia

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS "Liepājas Metalurģs "

### Report on the Financial Statements

We have audited the accompanying financial statements of AS "Liepājas Metalurģs", registration No.40003014197, set out on pages 13 to 40 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year 2011, as well as a summary on the relevant accounting principles and other explanatory information presented in the Appendix.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS "Liepājas Metalurģs" as of 31 December 2011, and of its financial performance and its cash flows for the year 2011 in accordance with International Financial Reporting Standards as adopted by the European Union.

### Report on Other Legal and Regulatory Requirements

We have read the management report for 2011 set out on pages 5 to 6 of the accompanying annual report for 2011 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2011.

AS "BDO"  
Company of Certified Auditors  
Licence No 112

Dainis Tunsts  
International Liaison Partner

Rīga, Latvia,  
27 April 2012



Aivars Putniņš  
Certified auditor of Latvia  
Certificate No. 123

Registration No: 4000303577  
Account No: LV76UNLA0001003469481 (LVL), LV94UNLA0001645070322 (EUR), SEB banka AS, Swift code UNLALV2X  
Account No: LV80HABA0551029169581 (multi), Swedbank AS, Swift code HABALV22  
Account No: LV76NDEA0000082908382 (LVL), Nordea Bank Finland Plc Latvia branch, Swift code NDEALV2X

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## INFORMATION ON 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,  
August 7, 2003
4. Taxpayer registration number: LV40003014197
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. Accounting period: year 2011
9. Director: Leons Ptičkins  
Managing Director
10. Information on the major stockholders: The biggest stockholders are:  
Sergejs Zaharjins  
Proportion (%) of stocks (shares) 49%  
Ilja Segals  
Proportion (%) of stocks (shares) 21%  
Kirovs Lipmans  
Proportion (%) of stocks (shares) 20%
11. Council / Supervisory Board: Sergejs Zaharjins  
Aleksejs Zaharjins  
Kirovs Lipmans  
Māris Pomerancis  
Guntis Vilmītis  
Andris Deniņš
12. Members of the Board: Valērijs Terentjevs  
Ilja Segals  
Leons Ptičkins
13. The name of the bank, code, operating  
account number: AS SEB banka, UNLALV2X  
LV96UNLA 0012002467028
14. Chief Accountant: Ligita Bērzupe
15. Average number of employees: 2195

## **JOINT-STOCK COMPANY "LIEPĀJAS METALURĢS" MANAGEMENT STATEMENT REGARDING THE FINANCIAL STATEMENTS FOR THE YEAR 2011.**

### **Business type**

The JSC "Liepājas Metalurģs" is the only steel production company in the Baltic region and its core business is steel production. The company did not change the nature of its business in 2011, and all production types worked consistently.

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

The Company's Net Turnover in the reporting year was 206.1 million LVL (EUR 293.3 mill.), which was a 21% increase compared to the year of 2010. The business activities produced a 2.5 million LVL profit (EUR 3.5 mill.). The profit increase in comparison with the previous year was primarily related to the fact that the sales price increased by 23%.

Only purchased billet were used for rebar production during revamping of the steel production practice, therefore, production costs, compared to the prior year, increased by 15.4%.

### **Financial risk management**

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

Taking into a consideration revamping of the technological processes, during the reporting period the Company used long-term borrowing from the lending institutions. 56% of the planned amounts were utilized in 2011.

As of December 31, 2011, the value of short-term liabilities exceeded the value of current assets.

The Company follows cautious liquidity risk management, securing the borrowed funds are available to comply with liability obligations within the defined deadlines.

### **Long-term financing liabilities**

From the total bank long-term financing amount EUR 85.6 (60 mio. LVL), EUR 48.1 mio. (33.8 mio. LVL) were utilized during the reporting period.

The financing was secured with the following collaterals:

- 1) real estate with the cadastral number 1700 022 0059, Brīvības ielā 94, Liepājā, LV-3401;
- 2) movable assets owned;
- 3) equipment acquired within the scope of the modernization project.

Short-term borrowings from lending institutions are the additions to the working capital stock financing and amount to 22.56 mio. LVL (EUR 32.1 mio.).

Credit lines are secured by real estate and inventories.

### **Year 2011 major event**

Revamping of the steel melting process was the most important event for the JSC "Liepājas Metalurģs" during the reporting period.

Known modifications touched already modernized in the first phase of the revamping program continuous casting machine.

For the needs of still melting practice, scrap yard and loading/charging infrastructure was put in order and modernized.

48.75 mio. LVL (EUR 69.4 mio.), including 33.8 mio. LVL (EUR 48.1 mio.) from the long-term loan, were invested in the steel melting processes during the reporting period.

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

- Scrap handling system COSS technological ramp-up – achieving projected nominal capacity.
- Automotive road construction covering 8415 m<sup>2</sup> and technological road construction covering 3020 m<sup>2</sup> securing the operations of the meltshop production.
- Continue to improve computerized accounting system, including its appliance to the new steel melting practice.

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

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

The first loan principal amount was paid in April 2012 together with the interest payment to the Italian bank UniCredit S.p.A. for the total amount 5.15 mio. LVL (EUR 7.33 mio.).

In the name of the JSC "Liepājas metalurģs"

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

## **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, 2011 as well as the results of its operations and cash flow for the year 2011. 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.

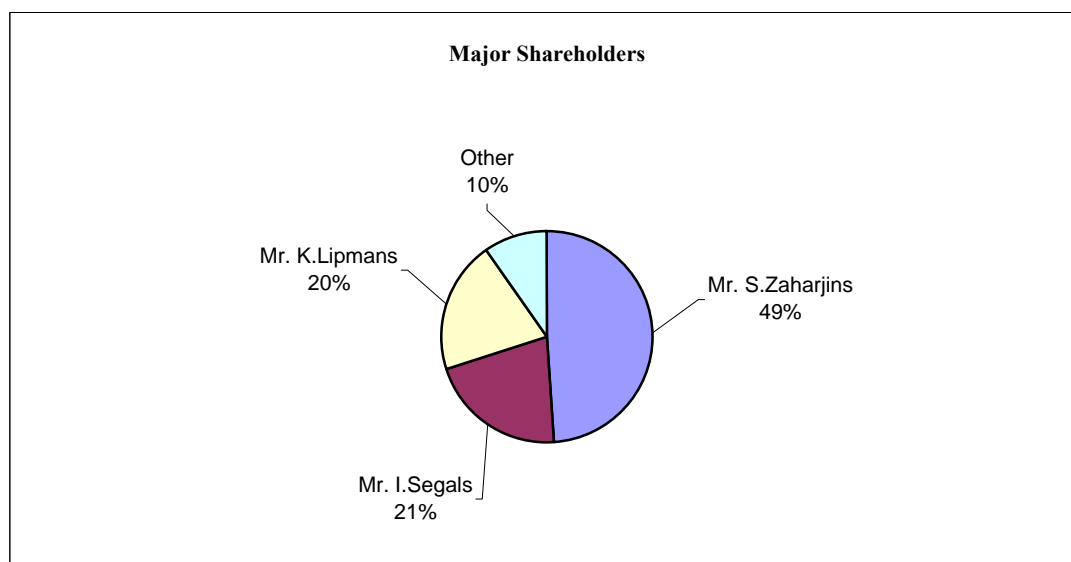
In the name of the JSC "Liepājas Metalurģs"

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

## SHARES AND SHAREHOLDERS

JSC "Liepājas metalurģs" shares are listed on NASDAQ OMX Riga Secondary list since July 7, 1997:

ISIN	LV0000100535
Ticker	LME1R
Nominal value	1,00 LVL
Total number of securities	16 981 033
Number of listed securities	16 981 033
Liquidity providers	None
Indexes	B1000GI, B1000PI, B1700GI, B1700PI, OMXBBCAPGI, OMXBBCAPPI, OMXBBGI, OMXBBPI, OMXBGI, OMXBPI, OMXRGI



Share price development							
	2005	2006	2007	2008	2009	2010	2011
<b>Opening price, LVL</b>	2.15	2.10	2.52	1.15	1.15	1.12	1.20
<b>Max price, LVL</b>	2.95	2.61	4.45	4.08	1.90	1.74	1.65
<b>Min price, LVL</b>	1.74	1.55	2.06	1.00	0.70	0.90	1.12
<b>Average price, LVL</b>	3.00	1.58	2.70	2.06	0.92	1.22	1.55
<b>Closing price, LVL</b>	2.09	2.45	3.78	1.15	1.12	1.2	1.48
<b>No of shares traded</b>	613,179	660,761	701,512	220,418	462,795	96,878	796,971
<b>Turnover, million LVL</b>	1.41	1.28	2.27	0.46	0.44	0.11	1.21
<b>Capitalization mill, LVL</b>	35.49	41.60	64.19	19.53	19.02	22.37	25.13
<b>Change, %</b>	-2.79	16.67	50.00	0.00	-2.61	7.14	23.33
<b>Deals</b>							508

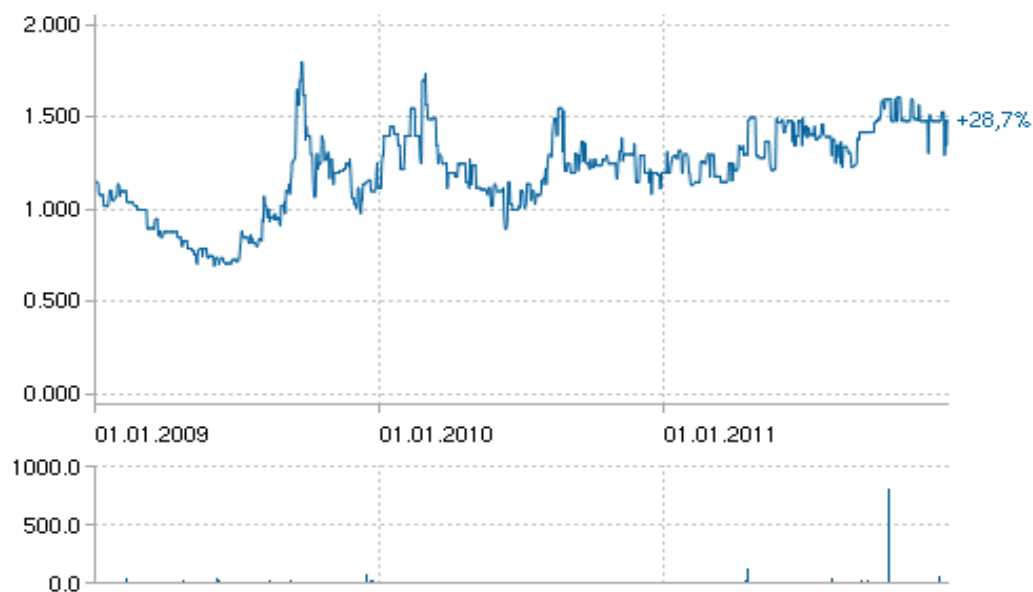
The official Bank of Latvia LVL to EUR exchange rate: 0.702804 (divide).



JSC "Liepājas metalurģs" share price development for the period 01.01.2011 – 31.12.2011



JSC "Liepājas metalurģs" share price development for the period 01.01.2009 – 31.12.2011

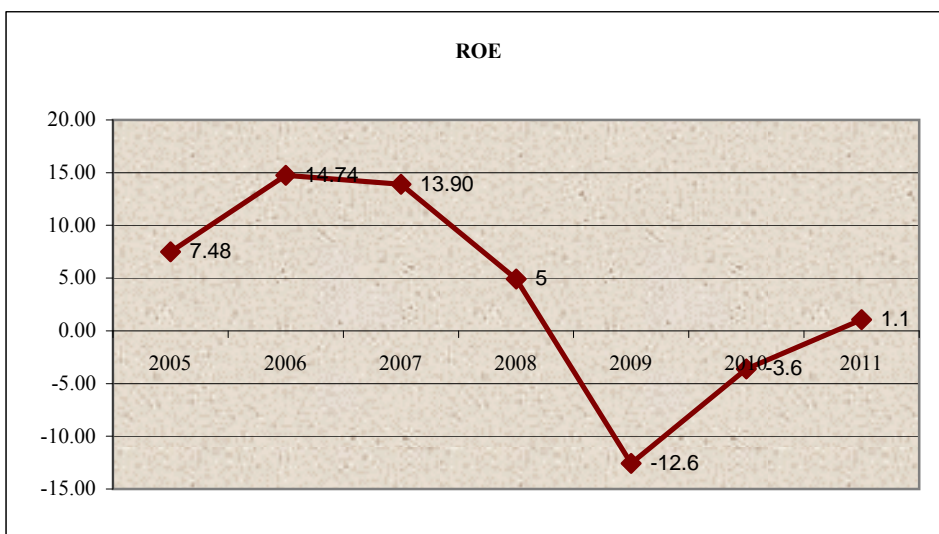
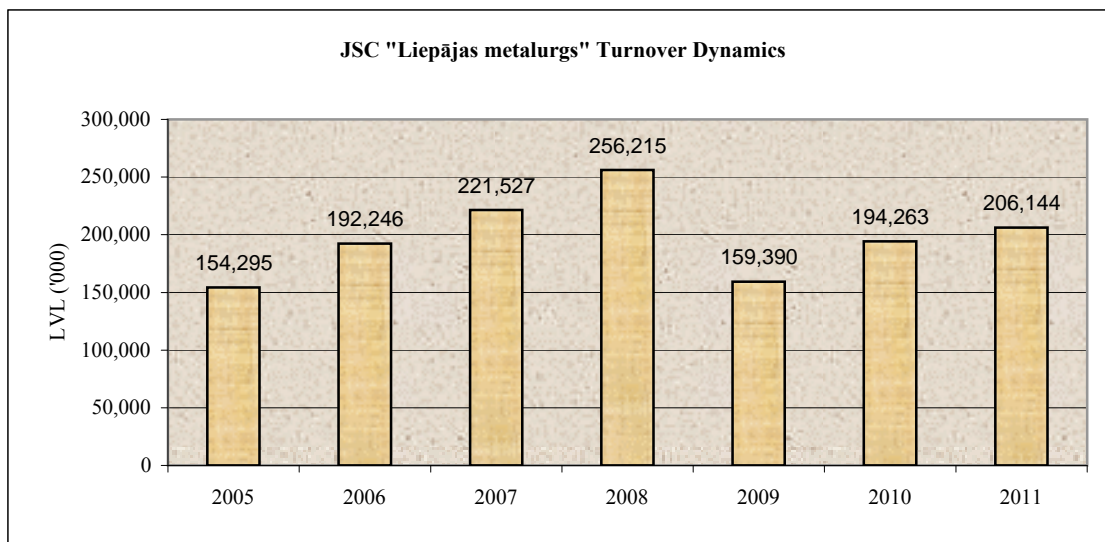
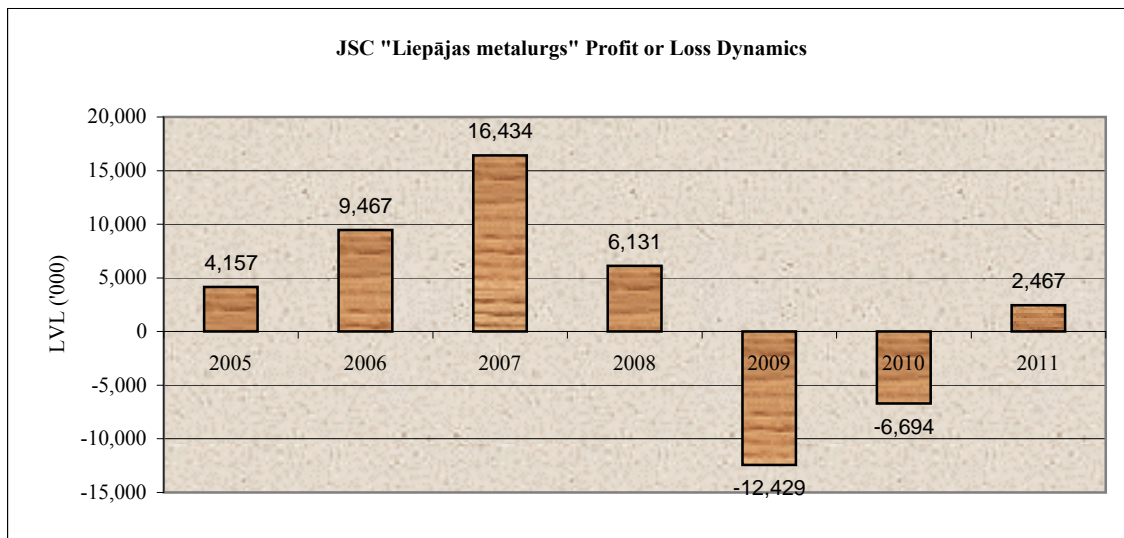


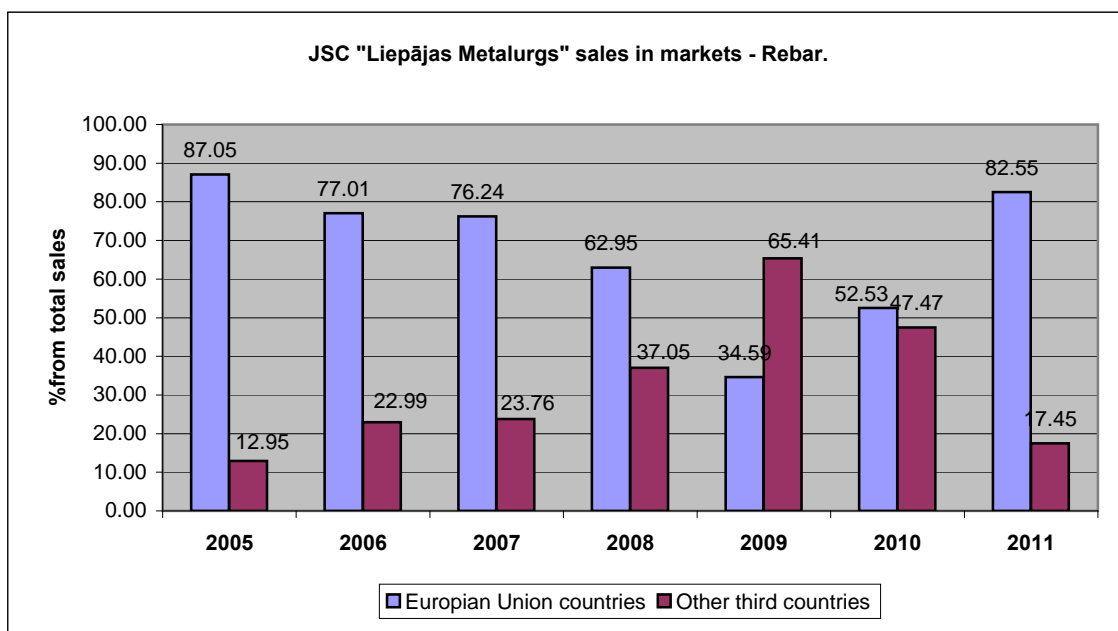
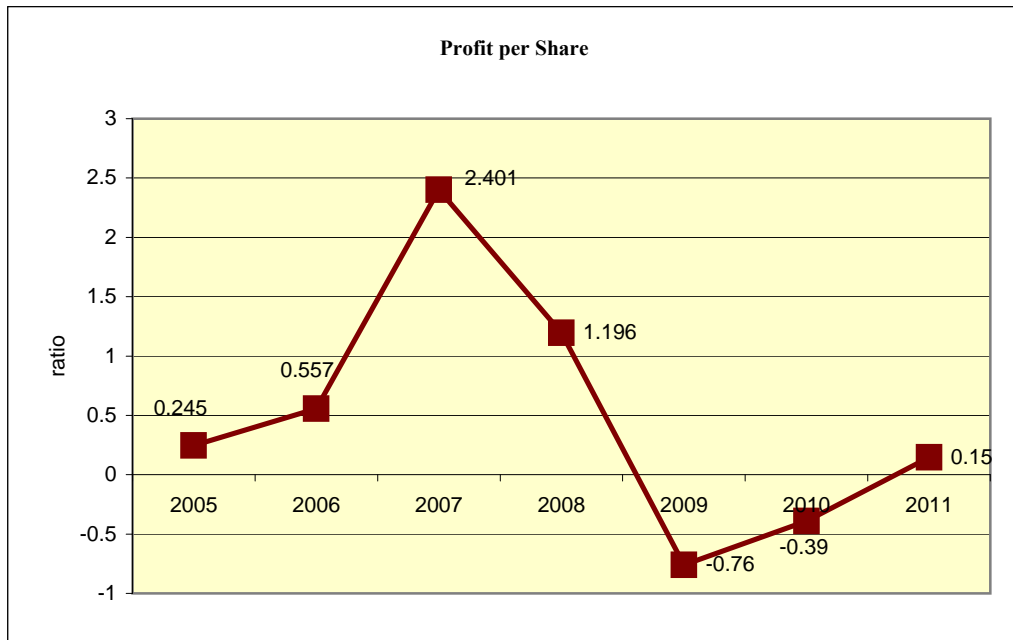
JSC "Liepājas metalurģs" share price development in comparison with NASDAQ OMX Riga index for the period 01.01.2009 – 31.12.2011



Indekss	01.01.2009	31.12.2011	+/-%
— OMX Riga	271,29	371,16	36,81 ↑
— LME1R	1,15 LVL	1,48 LVL	28,70 ↑

## FACTS AND NUMBERS





## STATEMENTS OF FINANCIAL POSITION

### for the year 2011 (audited)

ASSETS	Enclosure Number	As of 31.12.2011.		As of 31.12.2010.	
		LVL	EUR	LVL	EUR
<b>1.LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>					
1. Other intangible investments		27207	38712	45309	64469
2. Advance payments for intangible investments		0	0	0	0
<b>I. TOTAL:</b>		<b>27207</b>	<b>38712</b>	<b>45309</b>	<b>64469</b>
<b>II. Fixed assets</b>					
<b>1. Land, buildings and constructions and long-term sites</b>					
		49451863	70363662	49988505	71127235
2. Long-term investments in rent fixed assets		268625	382219	0	
3. Technological equipment and machinery		21965858	31254600	23927709	34046063
4. Other fixed assets and inventory		1357814	1931995	1782663	2536501
5. Fixed assets formation and costs of unfinished construction sites		73317797	104321827	30982489	44084110
6. Advance payments for fixed assets		209099	297521	18413	26199
<b>II. TOTAL:</b>		<b>146571056</b>	<b>208551824</b>	<b>106699779</b>	<b>151820108</b>
<b>III. Investment properties</b>					
1. Investment properties		<b>5024000</b>	<b>7148508</b>	<b>4922000</b>	<b>7003375</b>
<b>IV. Long-term financial investments</b>					
1. Share in the related companies (subsidiaries)		9085062	12926879	9069006	12904033
2. Loans to the related companies (subsidiaries)		9704	13808	41260	58708
3. Share in the capital of associated companies		1522959	2166975	1015343	1444703
4. Loans to the associated companies		81500	115964	0	0
<b>IV. TOTAL:</b>	<b>1</b>	<b>10699225</b>	<b>15223626</b>	<b>10125609</b>	<b>14407444</b>
<b>Section 1 total amount:</b>		<b>162321488</b>	<b>230962670</b>	<b>121792697</b>	<b>173295395</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stock (Inventories)</b>					
1. Raw materials, basic and auxiliary materials		9548118	13585748	8958204	12746376
2. Unfinished products, Work-in-Process		2386206	3395265	220299	313457
3. Finished products and goods for sales		51760861	73649070	39791180	56617748
4. Incompleted orders		166202	236484	209935	298711
5. Advance payments for goods		636784	906062	8069074	11481258
<b>I. TOTAL:</b>		<b>64498171</b>	<b>91772629</b>	<b>57248692</b>	<b>81457550</b>
<b>II. Accounts receivable (Debtors)</b>					
1. Trade accounts receivable		4054155	5768543	971994	1383023
2. Debt of related companies (subsidiaries)		482266	686203	388191	552346
3. Debt of associated enterprises		113784	161900	38533	54828
4. Other debtors (accounts receivable)		1218983	1734457	859466	1222910
5. Prepaid expenses		56317	80132	70056	99681
<b>II. TOTAL:</b>	<b>2</b>	<b>5925505</b>	<b>8431234</b>	<b>2328240</b>	<b>3312787</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>		1301802	1852297	3598703	5120493
<b>IV. TOTAL:</b>		<b>1301802</b>	<b>1852297</b>	<b>3598703</b>	<b>5120493</b>
<b>Section 2 total amount</b>		<b>71725478</b>	<b>102056161</b>	<b>63175635</b>	<b>89890830</b>
<b>TOTAL ASSETS</b>		<b>234046966</b>	<b>333018830</b>	<b>184968332</b>	<b>263186225</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	As of 31.12.2011.		As of 31.12.2010.	
		LVL	EUR	LVL	EUR
<b>1. SHAREHOLDERS' EQUITY</b>					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		40402465	57487529	45916269	65332965
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		44524829	63353124	44524829	63353124
<b>TOTAL:</b>		<b>44524829</b>	<b>63353124</b>	<b>44524829</b>	<b>63353124</b>
4. Retained earnings					
a) undistributed profit from the previous years		-19123497	-27210285	-12429483	-17685561
4. Retained earnings					
b) undistributed profit of the reporting year		2466633	3509703	-6694016	-9524727
section 1 total amount:		<b>85251463</b>	<b>121301904</b>	<b>88298632</b>	<b>125637634</b>
<b>2. PROVISIONS</b>					
1. Provisions for anticipated taxes		1295020	1842647	1470350	2092120
2. Other provisions		831400	1182976	821000	1168178
section 2 total amount:	<b>3</b>	<b>2126420</b>	<b>3025623</b>	<b>2291350</b>	<b>3260297</b>
<b>3. LIABILITIES (Accounts Payable)</b>					
<b>I. Long-term Creditors (Accounts Payable).</b>					
1. Loans from credit institutions		48718491	69320168	25432579	36187300
2. Other loans		0	0	0	0
<b>I. TOTAL:</b>		<b>48718491</b>	<b>69320168</b>	<b>25432579</b>	<b>36187300</b>
<b>II. Short-term Creditors (Accounts payable)</b>					
1. Loans from credit institutions		29769652	42358399	13520667	19238176
2. Other loans		33711	47966	125086	177981
3. Advance payments received from customers		30946000	44032191	41459776	58991947
4. Suppliers and contractors trade account payable		34604233	49237388	10240655	14571139
5. Accrued liabilities (Payable bills of exchange)		282825	402424	1894281	2695319
6. Payable (debt) to related companies (subsidiaries)		223541	318070	92313	131350
7. Payable (debt) to associated companies		583401	830105	160347	228153
8. Taxes and state social insurance payments	<b>4</b>	715484	1018042	730970	1040077
9. Other liabilities		791745	1126552	721676	1026852
<b>II. TOTAL:</b>		<b>97950592</b>	<b>139371136</b>	<b>68945771</b>	<b>98100994</b>
Section 3 total amount:	<b>5</b>	<b>146669083</b>	<b>208691304</b>	<b>94378350</b>	<b>134288294</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>234046966</b>	<b>333018830</b>	<b>184968332</b>	<b>263186225</b>

In the name of the JSC "Liepājas metalurģs"

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

## STATEMENTS OF COMPREHENSIVE INCOME

### for the year 2011 (audited)

No.	Parameter designation	Enclosure Number	As of 31.12.2011.		As of 31.12.2010.	
			LVL	EUR	LVL	EUR
1	<b>Net turnover</b>	6,7	206144121	293316659	194263074	276411452
2	<b>Production costs of goods sold</b>	8	-194769012	-277131337	-192623235	-274078171
3	<b>Gross profit or loss (from turnover)</b>		11375109	16185322	1639839	2333281
4	<b>Sales costs</b>	9	-4339666	-6174788	-5356617	-7621779
5	<b>Administration costs</b>	10	-4523021	-6435679	-4683106	-6663460
6	<b>Other operating income</b>	11	10649641	15153074	7624361	10848488
7	<b>Other operating costs</b>	12	-9780114	-13915849	-5042816	-7175281
8	<b>Interest income and other similar income</b>	13	41948	59687	213899	304351
9	<b>Interest payments and similar expenses</b>		-850224	-1209760	-670446	-953959
10	<b>Profit or loss before extraordinary items and taxes</b>		2573673	3662008	-6274886	-8928358
11	<b>Profit or loss before taxes</b>		2573673	3662008	-6274886	-8928358
12	<b>Income tax for the reporting period</b>		0	0	0	0
13	<b>Deferred tax</b>		175330	249472	-148752	-211655
12	<b>Other taxes</b>		-282370	-401776	-270378	-384713
13	<b>Reporting period profit or loss after taxes</b>		<b>2466633</b>	<b>3509703</b>	<b>-6694016</b>	<b>-9524727</b>

The JSC "Liepājas metalurģs" demonstrated profit at the rate of 0.145 LVL (EUR 0.207) 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 (divide).

In the name of the JSC "Liepājas Metalurģs"

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

## CASH FLOW STATEMENT (by direct method) for the year 2011

	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
<b>OPERATING CASH FLOW</b>				
Cash received from buyers	203813782	290000885	218781231	311297646
Cash received from other business activities	1224016	1741618	1636743	2328875
VAT overpayment received	1619075	2303736	12953260	18430829
Bank interest received	40416	57507	214046	304560
Cash paid to suppliers and employees	-203110516	-289000228	-241884258	-344170292
<b>Cash received from the core business activity</b>	<b>3586773</b>	<b>5103518</b>	<b>-8298978</b>	<b>-11808382</b>
Interest payment	-840074	-1195318	-641333	-912535
Corporate income tax payment	0	0	0	0
Other tax payments	-909773	-1294490	-1011222	-1438839
<b>Net cash flow from the core business activity</b>	<b>1836926</b>	<b>2613710</b>	<b>-9951533</b>	<b>-14159756</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Acquisition of fixed assets	-9189356	-13075276	-4071638	-5793419
Sale of fixed assets and intangible assets	0	0	4840	6887
Investments in related companies	-536672	-763615	-115000	-163630
<b>Net cash flow from investment operations</b>	<b>-9726028</b>	<b>-13838891</b>	<b>-4181798</b>	<b>-5950162</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Short-term borrowings in net value (credit line)	7700324	10956574	14072592	20023494
Paid liabilities for financial leasing	-153080	-217813	0	0
Loans to associated companies	-81500	-115964	0	0
Repayment of loans and interests from related companies	36904	52510	2027	2884
Costs not associated with operating activities	-1365529	-1942973	-886191	-1260936
<b>Net cash flow from financial activities</b>	<b>6137119</b>	<b>8732334</b>	<b>13188428</b>	<b>18765442</b>
Result of foreign currency exchange rate fluctuations	-544918	-775348	-191020	-271797
<b>Net growth of cash and its equivalents</b>	<b>-2296901</b>	<b>-3268196</b>	<b>-1135923</b>	<b>-1616273</b>
Cash and its equivalents at the beginning of accounting period	3598703	5120493	4734626	6736766
<b>Cash and its equivalents at the end of accounting period</b>	<b>1301802</b>	<b>1852297</b>	<b>3598703</b>	<b>5120493</b>



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, LVL

	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 01.01.2010.</b>	<b>16981033</b>	<b>49907552</b>	<b>0</b>	<b>44524829</b>	<b>-12429482</b>	<b>0</b>	<b>98983932</b>
Previous year profit put in reserves					12429482	-12429482	0
Undistributed profit of the reporting period					-6694016		-6694016
Reserves distribution							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-3991283					-3991283
<b>As of 31.12.2010.</b>	<b>16981033</b>	<b>45916269</b>	<b>0</b>	<b>44524829</b>	<b>-6694016</b>	<b>-12429482</b>	<b>88298633</b>
Previous year profit put in reserves					6694016	-6694016	0
Undistributed profit of the review period					2466633		2466633
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-5513804					-5513804
<b>As of 31.12.2011.</b>	<b>16981033</b>	<b>40402465</b>	<b>0</b>	<b>44524829</b>	<b>2466633</b>	<b>-19123498</b>	<b>85251462</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, EUR

	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 01.01.2010.</b>	<b>24161833</b>	<b>71012049</b>	<b>0</b>	<b>63353124</b>	<b>-17685560</b>	<b>0</b>	<b>140841447</b>
Previous year profit put in reserves					17685560	-17685560	0
Undistributed profit of the reporting period					-9524727		-9524727
Reserves distribution							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-5679084					-5679084
<b>As at 31.12.2010.</b>	<b>24161833</b>	<b>65332965</b>	<b>0</b>	<b>63353124</b>	<b>-9524727</b>	<b>0</b>	<b>125637636</b>
Previous year profit put in reserves					9524727	-9524727	0
Undistributed profit of the review period					3509703		3509703
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-7845436					-7845436
<b>As of 31.12.2011.</b>	<b>24161833</b>	<b>57487529</b>	<b>0</b>	<b>63353124</b>	<b>3509702</b>	<b>-9524726.7</b>	<b>121301902</b>

## FIXED ASSETS MOVEMENT DESCRIPTION

### LVL

	Intangible Investments	Land, buildings and constructions	Long-term investments	Tech. equipment and Machinery	Other Fixed Assets and Inventory	Fixed Assets foundation and unfinished Construction sites	Advance payments for Fixed Assets	Total LVL
<b>Beginning value on 31.12.2010.</b>	<b>316265</b>	<b>53854986</b>	<b>0</b>	<b>40116109</b>	<b>3715727</b>	<b>30982488</b>	<b>18413</b>	<b>129003988</b>
Acquired in 2011	4023	201964	282755	1960314	260705	45198239	910207	48818207
Turned in to usage	0	0	0	0	0	-2862930	-719521	-3582451
Written-of	-834	-119122	0	-625392	-277615	0	0	-1022963
<b>on 31.12.2011.</b>	<b>319454</b>	<b>53937828</b>	<b>282755</b>	<b>41451031</b>	<b>3698817</b>	<b>73317797</b>	<b>209099</b>	<b>173216781</b>
<b>DEPRECIATION on 31.12.2010.</b>	<b>270956</b>	<b>3866481</b>	<b>0</b>	<b>16188400</b>	<b>1933064</b>	<b>0</b>	<b>0</b>	<b>22258901</b>
Calculated depreciation	22125	637680	14130	3566580	595891	0	0	4836406
Moved over written-off depreciation	-834	-18196	0	-269807	-187952	0	0	-476789
<b>on 31.12.2011.</b>	<b>292247</b>	<b>4485965</b>	<b>14130</b>	<b>19485173</b>	<b>2341003</b>	<b>0</b>	<b>0</b>	<b>26618518</b>
<b>Balance Value on 31.12.2010.</b>	<b>45309</b>	<b>49988505</b>	<b>0</b>	<b>23927709</b>	<b>1782663</b>	<b>30982488</b>	<b>18413</b>	<b>106745087</b>
<b>Balance Value on 31.12.2011.</b>	<b>27207</b>	<b>49451863</b>	<b>268625</b>	<b>21965858</b>	<b>1357814</b>	<b>73317797</b>	<b>209099</b>	<b>146598263</b>

### Investment properties, (LVL)

<b>On 31.12.2010.</b>	<b>4922000</b>
Moved from Fixed Assets	0
Revaluated profit or loss	221400 -119400
<b>Investment properties in Balance on 31.12.2011</b>	<b>5024000</b>

**EUR**

	Intangible Investments	Land, Buildings and constructions	Long-term investments	Tech. equipment and Machinery	Other Fixed Assets and Inventory	Fixed Assets foundation and unfinished Construction sites	Advance payments for Fixed Assets	Total EUR
Beginning value on 31.12.2010.	450005	76628741	0	57080081	5287003	44084109	26199	183556138
Acquired in 2011	5724	287369	402324	2789276	370950	64311300	1295108	69462051
Turned in to usage	0	0	0	0	0	-4073582	-1023786	-5097369
Written-off	0	-169495	0	-889853	-395011	0	0	-1454359
on 31.12.2011.	455729	76746615	402324	58979504	5262942	104321827	297521	246466461
<b>DEPRECIATION</b>								
on 31.12.2010.	385536	5501507	0	23034018	2750502	0	0	31671563
Calculated depreciation	31481	907337	20105	5074786	847877	0	0	6881586
Moved over written-off depreciation	0	-25891	0	-383901	-267432	0	0	-677223
on 31.12.2011.	417017	6382953	20105	27724903	3330947	0	0	37875926
Balance Value on 31.12.2010.	64469	71127235	0	34046063	2536501	44084109	26199	151884575
Balance Value on 31.12.2011.	38712	70363662	382219	31254600	1931995	104321827	297521	208590536

**Investment properties, (EUR)**

<b>On 31.12.2010.</b>	<b>7003375</b>
Moved from Fixed Assets	0
Revaluated profit or loss	315024 -169891
<b>Investment properties in Balance on 31.12.2011</b>	<b>7148508</b>

## ENCLOSURES TO THE FINANCIAL REPORT

### ACCOUNTING POLICY

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

The Annual Report is prepared in accordance with the International Financial Reporting Standards. Statement of Comprehensive Income 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 Statement of Financial Position;
  - 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 Statement of Financial Position 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 Statement of Financial Position and Statement of Comprehensive Income 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 not 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 Statement of Comprehensive Income. 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.

In each financial report the Company conducts an analysis of the fixed and intangible assets depreciation time. This estimate and therefore depreciation rates could change from time to time.

Taking into a consideration changes in conditions concerning the fixed assets depreciation at the JSC "Liepājas metalurģs", the following depreciation rates were fixed and applied by the management for the year of 2009:

Intangible assets

Licenses and computer software	20 %
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Fixed (Capital) Assets:

Buildings and Structures	1.5-2 %
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Technological Equipment and Machinery operated in harsh working environment or at the maximum load level	25 %
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Transportation Vehicles and Equipment	20 %
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Computers and Data Storage Equipment	35 %
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Other Fixed Assets	20 %
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The Company considers that no significant corrections in the fixed and intangible assets depreciation rates is necessary for December 31, 2011.

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

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.

"Revaluation reserve" was reduced due to the fact that the value of fixed assets decreased. Part of assets does not have any book value left.

Expenditures for current repairs and maintenance are incorporated in the Statement of Comprehensive Income for the period, in which they are incurred.

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's located in Brīvības ielā 3/7, Brīvības 93, Brīvības 93<sup>a</sup>, Brīvības 95<sup>a</sup>, Brīvības 95<sup>b</sup>, Brīvības 97<sup>a</sup>, Brīvības 99<sup>a</sup>, Brīvības 92<sup>d</sup>, Brīvības 98, Brīvības 142<sup>a</sup>, Brīvības 172, Brīvības 94<sup>c</sup>, Brīvības 94<sup>d</sup>, Brīvības 95, Brīvības 98<sup>a</sup>, Brīvības 98<sup>e</sup>, Brīvības 100<sup>a</sup>, Brīvības 134, Brīvības 142<sup>b</sup>, Meldru 4, Ģen.Baloža 50, O.Kalpaka 5/7/9, Upmalas 9 un Upmalas 11/13 are served as credit line security for the bank.

There is a Commercial Pledge Agreement concluded between the JSC "Liepājas metalurģs" and Ministry of Finance on the state guarantee for the loan financing the revamping project. For the needs of security for the guaranteed by the state loan, the Company pledged its movable assets, modernized meltshop, and the new technological equipment received as a part of this project.

### **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.

### **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 by a certified real estate appraiser. Profit or loss received from the corrections to the true value of investment properties is reflected in the Statement of Comprehensive Income.

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 value appraisal of the invested property for the needs of the financial documentation in 2011 was performed by a certified appraiser. Corresponding calculations were done in accordance with the norms of the Real Estate Appraisal Standard in Latvia LVS401, by using value replacement value method, income appraisal method, and market data analyses.

### **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. Investments in subsidiaries and associated companies are not revaluated. 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 Company investments in related companies were LVL 9085062,- (EUR 12926879,-) and in associated companies were LVL 1522959,- (EUR 2166975,-).

### **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 Statement of Comprehensive Income for the respective accounting period in net value.

	<b>31.12.2011.</b>	<b>31.12.2010.</b>
USD	0.544	0.535
EUR	0.702804	0.702804
PLN	0.16	

### **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.

Cash at the end of the accounting period on December 31 is: at the Company cashier's desks 12638.48 LVL, in current accounts 221799.88 LVL, and on deposit 1067363.84 LVL.

### **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 Statement of Financial Positions. The Accounts Receivable balances are recorded based on the corresponding entries in the accounting registers.



## **Factoring**

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 (proforma 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).

Long-term liabilities apply to the loan for the meltshop production revamping. On December 29, 2009, all the necessary documentation was finalized with one of the largest Italian banks "UniCredit MedioCredito Centrale SpA" concerning the second phase of modernization of the JSC "Liepājas Metalurģs". The total financing amount was EUR 85.6 mio. (about 60 mio. LVL). Financing payback time is 2020.

The loan is backed-up by the State Guarantee of the Republic of Latvia and Italian export credit agency.

## **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**

Provisions are reserved for certain kinds of losses, as well as for coverage of liabilities or expenses which are related to the reporting period or previous years and which are foreseen or definitely known, but which amount or certain liabilities appearance or coverage date is not known.

Provisions for unused vacation are defined at the end of the year for each employee in accordance with the actual time worked in a particular year. The unused vacation time is accounted for and recalculated and converted into a money compensation, which comes from the actual average daily income in an average month together with payments for the social insurance.

Provisions for doubtful debtors are formed taking into a consideration the analysis of appointed debtors and documents. These provisions for doubtful debtors are not outlined in the balance sheet, but the debtors' amount is reduced by these provisions in the balance sheet, since the doubtful debtors account balance is usually the same as the provision account balance.

### **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 2011 was not changed in comparison to the year 2010.

### **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 2011 was 2195.

### **Council and Board Compensation**

The compensation to the Members of the Council and Board:

- 2010 was LVL 228060 (EUR 324500)

- 2011 was LVL 258000 (EUR 356101)

incl.: to Members of the Council LVL 146868 (EUR 208974);

to Members of the Board LVL 111132 (EUR 158127).

### **Compensation to the certified audit firm**

Compensation for:	the year 2011 annual report audit	11 843.02 LVL
	moving property and real estate valuation	27 649.34 LVL

### **Cadastral value**

The following cadastral values are assigned to the real estate of the Company:

	Yr. 2011	Yr. 2010
buildings	14000109 LVL	24176464 LVL
land	6885249 LVL	7601859 LVL

### Other information

In the year 2011, interest of the loan for the meltshop revamping, as well as payments for the state guarantee are included in the fixed assets.

Payments to the Treasury of the Republic of Latvia for the state guarantee on the loan were 616 237 LVL, and to the Italian bank UniCredit for the loan interest and commitment fee 2 454 906 LVL (EUR 3 493 016).

### Analyses of the company performance

The financial ratios are used in calculations in order to analyze further directions of the company's development. Financial ratios could be used in order to forecast financial condition of the company. These also could be taken as valuable tools to assist in the long-term solvency analysis.

The *liquidity ratio* – the ability of the company to pay off short-term debt, ability to pay its business partners.

$$\text{Total liquidity} = \frac{\text{Working capital}}{\text{Short-term liability}}$$

In 2011 this ratio was 0.73.

*Debt or solvency ratio* – describes the dependence on attraction of assets or company's liability concerning its equity. In other words, what is the company's ability to cover its liability within a defined timeframe. Debt or solvency ratio describes the company's dependency on the resource attractions.

The relation between liability and equity shows how much LVL there is in the borrowed capital for each Lat of the own capital. The JSC "Liepājas Metalurģs" has this ratio at 1.72, which shows that the company used much of borrowed funds.

The general view is: the more company's balance sheet total amount exceeds liabilities, the higher is company's solvency. There is an opinion, that this ratio shall be less or equal to 0.5.

$$\text{Liability ratio in the balance sheet} = \frac{\text{Liability}}{\text{Total balance sheet}}$$

In 2011 this ratio was 0.62.

The JSC "Liepājas Metalurģs" financial condition during the reporting period is related to the production technology revamping. At the same time, the Company followed a cautious, conservative liquidity risk management, assuring fulfillment of its obligations within the defined deadlines.

## ENCLOSURES TO FINANCIAL POSITION

### 1. Investment changes

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

Company Name, Address, Registration Number	Business activity	As of 31.12.2011.		
		Ownership in %	Ownership in LVL	The investment carrying value LVL
<b>Related Companies (Subsidiaries)</b>				
LSEZ JSC "Liepājas osta LM" Sliežu iela 7/1, Liepāja; 40003154754	stevedoring services, cargo, ship broker service, ship agency.	91.6	7749206	7749206
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	organisation of sport events promotion of healthy living, organization of recreation and social events.	95	1900	1900
"Ice-Hockey Hall "Liepājas metalurģs"", Ltd. Brīvības iela 93, Liepāja; 40003421648	sports arena and stadium operations	95	1900	1900
"Rūķis LM", Ltd. Vānes iela 25, Liepāja; 42103038147	construction materials production, waste and crushed slag processing.	100	1316000	1316000
"Liepājas naglas", Ltd. Brīvības iela 93, Liepāja; 42103032888	wire rod and nail production	100	14056	14056
"LM Resurss", Ltd. Brīvības iela 93, Liepāja; 42103055448	scrap trading	100	2000	2000
<b>Total Investments in Related Companies, LVL</b>			<b>9085062</b>	<b>9085062</b>
<b>Associated Companies</b>				
"Elme Messer Metalurģs", LSEZ Ltd. Brīvības iela 93, Liepāja; 40003461570	production and sales of industrial gas	18.69	952959	952959
JSC "Sātiņi Energo LM" Brīvības iela 93, Liepāja; 42103037207	construction stones and design stones, development of quarry, production of electricity	50	450000	450000
"Metalurģs & Duna", Ltd. Spīķera iela 19/23, Liepāja; 42103019610	services related to wood materials, metal processing, electricity sales	50	120000	120000
<b>Total Investments in Associated Companies, LVL</b>			<b>1522959</b>	<b>1522959</b>

All investments in related and associated companies are recorded in the balance sheet at their acquisition value.

### Long-Term Financial Investment (EUR)

Company Name, Address, Registration Number	Business activity	As of 31.12.2011.		
		Ownership in %	Ownership in LVL	The investment carrying value LVL
<b>Related Companies (Subsidiaries)</b>				
LSEZ JSC "Liepājas osta LM" Sliežu iela 7/1, Liepāja; 40003154754	stevedoring services, cargo, ship broker service, ship agency.	91.6	11026127	11026127
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	organisation of sport events promotion of healthy living, organization of recreation and social events.	95	2703	2703
"Ice-Hockey Hall "Liepājas metalurģs"", Ltd. Brīvības iela 93, Liepāja; 40003421648	sports arena and stadium operations	95	2703	2703
"Rūķis LM", Ltd. Vānes iela 25, Liepāja; 42103038147	construction materials production, waste and crushed slag processing.	100	1872499	1872499
"Liepājas naglas", Ltd. Brīvības iela 93, Liepāja; 42103032888	wire rod and nail production	100	20000	20000
"LM Resurss", Ltd. Brīvības iela 93, Liepāja; 42103055448	scrap trading	100	2846	2846
<b>Total Investments in Related Companies, LVL</b>			<b>12926879</b>	<b>12926879</b>
<b>Associated Companies</b>				
"Elme Messer Metalurģs", LSEZ Ltd. Brīvības iela 93, Liepāja; 40003461570	production and sales of industrial gas	13	1355938	1355938
JSC "Sātiņi Energo LM" Brīvības iela 93, Liepāja; 42103037207	construction stones and design stones, development of quarry, production of electricity	50	640292	640292
"Metalurģs & Duna", Ltd. Spīķera iela 19/23, Liepāja; 42103019610	services related to wood materials, metal processing, electricity sales	50	170745	170745
<b>Total Investments in Associated Companies, LVL</b>			<b>2166975</b>	<b>2166975</b>

All investments in related and associated companies are recorded in the balance sheet at their acquisition value.

**Long-Term Financial Investments: year 2011 Movement Report (LVL)**

	capital of related companies (subsidiaries)	capital of associated companies	Long-Term Loans
Beginning value on <b>31.12.2010.</b>	9069006	1015343	41260
Invested (loans provided)	16056	520616	81500
Moved to another item (or written-off)	0	-13000	-31556
<b>The balance on 31.12.2011.</b>	<b>9085062</b>	<b>1522959</b>	<b>91204</b>

**Long-Term Financial Investments: year 2011 Movement Report (EUR)**

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on <b>31.12.2010.</b>	12904033	1444703	58708
Invested (loans provided)	22846	740770	115964
Moved to another item (or written-off)	0	-18497	-44900
<b>The balance on 31.12.2011.</b>	<b>12926879</b>	<b>2166976</b>	<b>129772</b>

## 2. Accounts receivable (debtors)

DEBTORS	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
<b>Customers and affiliated companies debts</b>	<b>4650205</b>	<b>6616646</b>	<b>1398718</b>	<b>1990196</b>
Incl. Debts of buyers and customers	4054155	5768543	938283	1335056
Incl. Debts of buyers with factoring activities	0	0	33711	47966
Incl. Debts of related companies (subsidiaries)	482266	686203	388191	552346
Incl. Debts of associated enterprises (doubtful debtors debt)	113784	161900	38533	54828
	/414559/	/555298/	/390266/	/182267/
<b>Other debtors</b>	<b>1218983</b>	<b>1734457</b>	<b>859466</b>	<b>1222910</b>
Incl. Accrued and unpaid VAT	7445	10593	110469	157183
Incl. Advance payments	1198	1705	297	423
Incl. VAT budget overpayments	1034656	1472183	706357	1005055
Incl. Debt for caused damages to the enterprise	0	0	0	0
Incl. Various debtors	141527	201375	25890	36838
Incl. Overpaid salaries	0	0	93	132
Incl. Advance prepayment for services	34157	48601	15436	21963
Incl. Advance prepayment for Corporate income tax	0	0	825	1174
Incl. Overpaid taxes	0	0	99	141
Incl. Security deposit	0	0	0	0
<b>Future periods payments</b>	<b>56317</b>	<b>80132</b>	<b>70056</b>	<b>99681</b>
Incl. Press expenses	7232	10290	7965	11333
Incl. Miscellaneous	552	785	14588	20757
Incl. Property insurance	48533	69056	47503	67591
<b>Total Debtors:</b>	<b>5925505</b>	<b>8431234</b>	<b>2328240</b>	<b>3312787</b>

### 3. PROVISIONS

	Provisions for anticipated vacations (4318)		Provisions for doubtful debtors (4319)		Tax provisions	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>On 31.12.2010</b>	821000	1168178	390266	555298	1470350	2092120
Increase	10400	14798	156490	222665	0	0
Decrease	0	0	0	0	-175330	-249472
Written-off as bad debt	0	0	-132197	-188099	0	0
<b>On 31.12.2011</b>	831400	1182976	414559	589864	1295020	1842647

\*

\*

Doubtful debtors and provisions for doubtful debtors balance each other in the balance statement.



#### 4. Taxes and state social insurance payments in the year 2011

Tax	As of 31.12.2010.		Calculated in the year 2011		Paid in the year 2011		Received from budget in the year 2011		As of 31.12.2011.	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Real estate tax (buildings)	5195	7392	190467	271010	195662	278402	0	0	0	0
Real estate tax (land)	102	145	91903	130766	92005	130911	0	0	0	0
Residents' Income tax	272166	387257	2524710	3592339	2545094	3621343	0	0	251782	358254
Social Security tax	415867	591725	4593580	6536075	4558424	6486053	719	1023	450304	640725
Corporate risk charge	573	815	6703	9538	6703	9538	0	0	573	815
Corporate Income tax	-825	-1174	0	0	0	0	825	1174	0	0
Nature resources tax	32546	46309	33461	47611	53181	75670	0	0	12826	18250
Nature resources tax (packing)	-99	-141	0	0	0	0	99	141	0	0
Excise tax	0	0	0	0	0	0	0	0	0	0
Value added tax	4521	6433	0	0	4521	6433	0	0	0	0
	730046	1038762	7440824	10587339	7455590	10608349	1643	2338	715485	1018043
VAT overpayment (input)	-706357	-1005055	0	0	8717320	12403629	8394082	11943703	-1029595	-1464982

Tax overpayment (-) is reflected in the Report on the financial standing in section "Other Debtors".

### 5. Accounts payable (creditors)

CREDITORS	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
<b>Long-term borrowings from credit institutions</b>	<b>48718491</b>	<b>69320168</b>	<b>25432579</b>	<b>36187300</b>
<b>Other long-term borrowings (factoring)</b>	<b>29714646</b>	<b>42280132</b>	<b>13491025</b>	<b>19195999</b>
<b>Short-term borrowing from credit institutions (credit line)</b>	<b>55006</b>	<b>78266</b>	<b>29642</b>	<b>42177</b>
<b>Advance payments (residents)</b>	<b>74080</b>	<b>105406</b>	<b>136346</b>	<b>194003</b>
<b>Advance payments (non residents )</b>	<b>30871920</b>	<b>43926785</b>	<b>41323430</b>	<b>58797944</b>
<b>Other borrowing (factoring)</b>	<b>33711</b>	<b>47966</b>	<b>33711</b>	<b>47966</b>
<b>(individuals)</b>	<b>0</b>	<b>0</b>	<b>91375</b>	<b>130015</b>
<b>Debts to suppliers and contractors</b>	<b>34604233</b>	<b>49237388</b>	<b>10240655</b>	<b>14571139</b>
Incl. Materials and gas	18062885	25701170	7384930	10507809
Incl. Services	9358970	13316615	1103154	1569647
Incl. Scrap, various services related to scrap delivery, processing	6814490	9696146	1549367	2204551
Incl. Fixed assets	234529	333705	202234	287753
Incl. Medical department creditors	2667	3795	970	1380
Incl. Other Creditors	130692	185958	0	0
<b>Debts to related enterprises (subsidiaries)</b>	<b>223541</b>	<b>318070</b>	<b>92313</b>	<b>131350</b>
<b>Debts to associated enterprises</b>	<b>583401</b>	<b>830105</b>	<b>160347</b>	<b>228153</b>
<b>Accrued liabilities</b>	<b>282825</b>	<b>402424</b>	<b>1894281</b>	<b>2695319</b>
<b>Taxes and social insurance payments</b>	<b>715484</b>	<b>1018042</b>	<b>730970</b>	<b>1040077</b>
Incl. State tax	572	814	573	815
Incl. Residents' Income tax	251782	358254	272166	387257
Incl. Value added tax	0	0	4521	6433
Incl. Social Security tax	450304	640725	415867	591725
Incl. Nature resources tax	12826	18250	32546	46309
Incl. Real estate (buildings) tax	0	0	5195	7392
Incl. Real estate (land) tax	0	0	102	145
<b>Other creditors (liabilities)</b>	<b>791747</b>	<b>1126554</b>	<b>721676</b>	<b>1026852</b>
Incl. Payments for salaries	692540	985396	659033	937719
Incl. Deductions from salaries	31873	45351	31078	44220
Incl. Credit interests to other creditors (the Treasury)	67038	95386	30835	43874
Incl. Settlement parties	296	421	730	1039
<b>Total Creditors:</b>	<b>146669085</b>	<b>208691307</b>	<b>94378350</b>	<b>134288294</b>

## ENCLOSURES TO PROFIT AND LOSS STATEMENT

### 6. Net turnover (revenue) by products

Product Description	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Rolled steel	203947090	290190565	192175828	273441568
Castings	226935	322899	93981	133723
Wire	781	1111	0	0
Crushed slag	648973	923405	355206	505413
Services	315846	449408	572817	815045
Sold steam, gCal	8024	11417	24451	34791
Medical department	882970	1256353	916703	1304351
Transportation services	113502	161499	124088	176561
<b>TOTAL</b>	<b>206144121</b>	<b>293316659</b>	<b>194263074</b>	<b>276411452</b>

### 7. Net turnover by geographic markets

Market	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
European Union countries	170179495	242143606	102051746	145206553
Other third countries	35964626	51173053	92211328	131204899
<b>Total</b>	<b>206144121</b>	<b>293316659</b>	<b>194263074</b>	<b>276411452</b>

## 8. Production costs of sold goods

Cost Description	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Materials	168517333	239778563	168040003	239099383
Salaries and wages	9815861	13966712	9667632	13755801
Social benefits deductions	2321698	3303479	2268905	3228361
Depreciation	4139244	5889614	5393349	7674044
Other costs	9974876	14192970	7253346	10320582
<b>Total</b>	<b>194769012</b>	<b>277131337</b>	<b>192623235</b>	<b>274078171</b>

## 9. Sales costs

Cost Description	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Packing materials	33537	47719	74634	106195
Transportation costs	2829254	4025666	1266752	1802426
Freight	261365	371889	1476617	2101037
Port handling charges	857097	1219539	1765432	2511983
Advertising and marketing costs	41500	59049	28213	40143
Other sales costs (insurance, storage/warehousing, depreciation, and other)	305516	434710	677089	963411
Costs related to factoring	9678	13771	23983	34125
Costs related to L/C	1719	2446	43897	62460
<b>Total</b>	<b>4339666</b>	<b>6174788</b>	<b>5356617</b>	<b>7621779</b>

### 10. Administration costs

Costs Description	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Salaries and social costs	2714065	3861767	2944424	4189538
Communication costs	61470	87464	73576	104689
Office supplies and office maintenance costs	944277	1343585	854007	1215142
Legal, auditing, translation fees	106517	151560	63755	90715
Presentation costs	311063	442603	333948	475165
Depreciation of fixed assets	227294	323410	233155	331750
Management traveling expenses	90508	128781	111761	159022
Management training	5231	7443	6908	9829
Costs for bank account services	41371	58866	40034	56963
Costs related to stockholders	21225	30200	21538	30646
<b>Total</b>	<b>4523021</b>	<b>6435679</b>	<b>4683106</b>	<b>6663460</b>

## 11. Other operating income

Income Description	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Sale of current assets	4434813	6310170	1573764	2239264
Sale of fixed assets and liquidation	924418 940697	1315328 1338491	4000 97912	5691 139316
Currency exchange gain	0	0	640265	911015
Received fines	19862	28261	21800	31019
Written-off revaluation reserve of liquidated fixed assets	3232447	4599358	158100	224956
Income from the investment property revaluation	102000	145133	0	0
Bad debt recovery	132196	188098	0	0
Other income from operating activity	817441	1163114	4501813	6405503
Income due to a decrease in provisions	0	0	9000	12806
Received discounts	45767	65121	617707	878918
<b>Total</b>	<b>10649641</b>	<b>15153074</b>	<b>7624361</b>	<b>10848488</b>

## 12. Other operating costs

Costs Description	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Sales costs of current assets	4373728	6223254	909756	1294466
Costs related to the sale and liquidation of fixed assets	35574	50617	2450	3486
	505839	719744	65039	92542
Currency exchange loss	752426	1070606	0	0
Costs of reserve establishment	10400	14798	0	0
Reserve for doubtful debtors	156489	222664	262168	373031
Doubtful debts write-off	324705	462014	21754	30953
Investment property value decrease	0	0	87000	123790
Paid compensations and other benefits	62940	89556	67795	96464
Other costs	951496	1353857	294794	419454
Paid fines	3254	4630	58313	82972
Costs not associated with operating activities	1608043	2288039	1211790	1724222
Costs of infrastructure maintenance	20714	29473	20974	29843
Training costs of the new staff	35481	50485	47366	67396
Costs of previous period	18549	26393	41265	58715
Extraordinary costs (production site close for modernization)	874506	1244310	1913228	2722278
Costs of auto maintenance	45970	65409	39124	55668
<b>Total</b>	<b>9780114</b>	<b>13915849</b>	<b>5042816</b>	<b>7175281</b>

### 13. Interest income

Income	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Income from loans to business persons	1535	2184	1548	2203
Income from bank accounts	5513	7844	1043	1484
Income from deposit investments	34900	49658	211308	300664
<b>Total Interest Income</b>	<b>41948</b>	<b>59687</b>	<b>213899</b>	<b>304351</b>