

Joint-Stock Company
"Liepājas Metalurģs "
Reg.Nr. 40003014197

Consolidated
Annual Report
(Audited)

For the year 2011
(01.01.2011. - 31.12.2011.)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS "Liepājas Metalurģs "

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS "Liepājas Metalurģs" and its subsidiaries (hereinafter - Group), set out on pages 7 to 23 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 consolidated financial statements give a true and fair view of the financial position of the Group 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 page 5 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 consolidated 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: 40003014197
Account No: LV76UNLA000100149481 (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 PARENT 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 CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2011.

Business type

Steel production, ship chartering and ship agency, stevedoring, cargo handling and loading port services, construction materials production, sport arena management, athletic stadium and other sports and cultural activities.

Summary of business operations during the reporting period

The Company's net turnover in the reporting year was LVL 221.7 mill. (approx. EUR 315.4 mill.) and a consolidated profit was LVL 3.9 mill. (approx. EUR 5.5 mill.).

Compared this period's net income to the previous reporting period, an increase of 17.5 mio. LVL (EUR 24.9 mio.) was achieved.

A loss of 6.9 mio. LVL (EUR 9.9 mio.) was recorded in the previous year.

Technical development of the Company

The Company's technical development during the reporting period was primarily directed at:

- work completion related to revamping of the steel melting processes. An investment was made in the amount of 48.75 mio. LVL (EUR 69.4 mio.);
- construction of the LSEZ AS "Liepājas osta LM" peer nr. 50, construction of the second phase of the grain cargo terminal, development of new cargo types. Conducted investments amounted to 3.29 mio. LVL (EUR 4.7 mio.).
- practice and training facilities were provided to the professional, amateur, and youth and children football teams as well as to hockey teams.

Forecast and further development

The major tasks for the year 2011 include:

- continue mastering development of the scrap preheating technology COSS;
- new cargo types development;
- continue working with youth by involving them in sports and preparing new players for the national football, hockey teams.

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 and its affiliated enterprises (in this text – the Consolidated Group) consolidated financial statements.

The Financial Statements represent the true picture for the Consolidated Group 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 activity's continuation

In the name of the JSC "Liepājas metalurģs"

Chairman of the Board _____ V. Terentjevs

STATEMENTS OF FINANCIAL POSITION (Consolidated) for the year 2011

ASSETS	Enclosure Number	As of 31.12.2011.		As of 31.12.2010.	
		LVL	EUR	LVL	EUR
1. LONG-TERM INVESTMENTS					
I. Intangible investments					
1. Other intangible assets		27243	38763	46394	66013
2. Concessions, patents, licenses, trademarks and similar rights		6115	8701	4829	6871
3. Advance payments for intangible investments		0	0	0	0
4. Goodwill		0	0	66518	94647
I.TOTAL:		33358	47464	117741	167530
II. Fixed assets					
1. Land, buildings and constructions, and long-term sites		52143877	74194053	52673028	74946967
2. Long-term investments in rented fixed assets		4679167	6657855	4607216	6555478
3. Technological equipment and machinery		29141677	41464871	29128410	41445993
4. Other fixed assets and inventory		1876213	2669611	2397554	3411412
5. Fixed assets formation and costs of unfinished construction sites		75419820	107312736	31594186	44954477
6. Advance payments for fixed assets		1051865	1496669	23193	33001
II. TOTAL:		164312619	233795794	120423587	171347327
III. Investment properties					
Investment properties		5230805	7442765	5136480	7308553
IV. Long-term financial investments					
1. Share in the capital of related companies (subsidiaries)		0	0	2000	2846
2. Share in the capital of associated companies		1402959	1996231	895343	1273958
3. Loans to the related companies (subsidiaries)		0	0	0	0
4. Loans to the associated companies		81500	115964	0	0
5. Other loans		668817	951641	665910	947505
IV. TOTAL:		2153276	3063836	1563253	2224309
Section 1 total amount:		171730058	244349859	127241061	181047719
2. CURRENT ASSETS					
I. Stock (Inventories)					
1. Raw materials, basic and auxiliary materials		10009260	14241894	9093641	12939085
2. Unfinished products, Work in Process		2457425	3496601	240895	342763
3. Finished products and goods for sales		54034888	76884719	39879782	56743818
4. Incompleted orders		166202	236484	209935	298711
5. Advance payments for goods		749961	1067098	8083225	11501393
6. Labour animals and productive animals		110	157	110	157
I. TOTAL:		67417846	95926953	57507588	81825926
II. Accounts receivable (Debtors)					
1. Trade accounts receivable		5416760	7707355	2190932	3117415
2. Debt of related enterprises		0	0	183395	260948
3. Debt of associated enterprises		113784	161900	38533	54828
4. Other debtors (accounts receivable)		1473833	2097075	1077397	1532998
5. Short-term loans to co-owners and management of the company		7488	10654	6129	8721
6. Prepaid expenses		85648	121866	107797	153381
7. Accrued income		24157	34372	28878	41090
II.TOTAL:	1	7121670	10133223	3633061	5169380
III. Short-term financial investments		0	0	0	0
III. TOTAL:		0	0	0	0
IV. Cash		1747148	2485968	3958364	5632245
IV. TOTAL:		1747148	2485968	3958364	5632245
Section 2 total amount		76286664	108546144	65099013	92627550
TOTAL ASSETS		248016722	352896002	192340074	273675269

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	As of 31.12.2011.		As of 31.12.2010.	
		LVL	EUR	LVL	EUR
1. SHAREHOLDERS' EQUITY					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		40474849	57590522	45988653	65435958
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		44524829	63353124	44524829	63353124
3. TOTAL:		44524829	63353124	44524829	63353124
4. Retained earnings: a) undistributed profit from the previous years		-19378214	-27572714	-12290463	-17487753
4. Retained earnings: b) undistributed profit of the reporting year		4247734	6043981	-6743924	-9595739
4. Retained earnings: c) Minority shareholders		-361682	-514627	-233311	-331972
4. Retained earnings: b+c undistributed profit of the reporting year		3886052	5529354	-6977235	-9927711
Section 1 total amount:		86488549	123062118	88226817	125535451
Minority shareholders		514050	731427	525170	747250
2. PROVISIONS					
1. Provisions for anticipated taxes		1625771	2313264	1653786	2353125
2. Other provisions		931761	1325776	945604	1345473
Section 2 total amount:		2557532	3639040	2599390	3698599
3. LIABILITIES (Accounts payable)					
I. Long-term Creditors (Accounts payable)					
1. Loans from credit institutions		51149544	72779244	27287818	38827067
2. Other loans		3046992	4335479	1469971	2091580
3. Other liabilities		15146	21551	175146	249210
I. TOTAL:		54211682	77136274	28932935	41167858
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		31378685	44647846	15007243	21353383
2. Other loans		901231	1282336	734728	1045424
3. Advance payments received from customers		33301295	47383474	41505423	59056896
4. Suppliers and contractors trade account payable		35838782	50993993	11002550	15655218
5. Accrued liabilities (payable bills of exchange)		369660	525979	1913939	2723290
6. Payable (debt) to related companies		0	0	0	0
7. Payable (debt) to associated companies		559907	796676	160347	228153
8. Taxes and state social insurance payments	2	984323	1400565	884627	1258711
9. Other liabilities		911026	1296273	846905	1205037
10. Deferred income		0	0	0	0
II. TOTAL:		104244909	148327142	72055762	102526113
Section 3 total amount:	3	158456591	225463417	100988697	143693970
TOTAL LIABILITIES AND EQUITY		248016722	352896002	192340074	273675269

In the name of the JSC "Liepājas metalurģs"

Chairman of the Board _____ V.Terentjevs

STATEMENTS OF COMPREHENSIVE INCOME (Consolidated) for the year 2011

No.	Parameter designation	Enclosure Number	As of 31.12.2011.		As of 31.12.2010.	
			LVL	EUR	LVL	EUR
1	Net turnover	4, 5	221651078	315381071	204152477	290482805
2	Production costs of goods sold	6	-205624941	-292577932	-202417377	-288013980
3	Gross profit or loss (from turnover)		16026137	22803139	1735100	2468825
4	Sales costs	7	-9154562	-13025768	-5682866	-8085990
5	Administration costs	8	-5823907	-8286673	-5863272	-8342684
6	Other operating income	9	11801156	16791532	8306333	11818847
7	Other operating costs	10	-8980336	-12777867	-4226944	-6014399
8	Interest income and other similar income		41380	58878	214407	305074
9	Income from the capitals of related and associated companies		1270388	1807599	-4674	-6651
10	Interest payments and similar expenses		-1111157	-1581034	-832294	-1184248
11	Profit or loss before extraordinary items and taxes		4069099	5789806	-6354210	-9041226
12	Income tax for the reporting period		-33064	-47046	-62279	-88615
13	Deferred tax		161238	229421	-271611	-386468
14	Other taxes		-311221	-442828	-289135	-411402
15	Profit or loss after taxes for the reporting period		3886052	5529354	-6977235	-9927711

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

In the name of the JSC "Liepājas Metalurģs"

Chairman of the Board _____ V.Terentjevs

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

	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
OPERATING CASH FLOW				
Cash received from buyers	218962767	311555949	228833668	325600976
Cash received from other business activities	1224182	1741854	1636743	2328875
VAT overpayment received	2417255	3439444	12953260	18430829
Cash paid to suppliers and employees	-216946651	-308687274	-251040502	-357198454
Cash received from the core business activity	5657553	8049973	-7616831	-10837774
Received interests from the core business activity	-1089531	-1550263	212498	302357
Received interest	40416	57507	-807221	-1148572
Corporate income tax payments	-89263	-127010	-74327	-105758
Other tax payments	-2621954	-3730704	-2926052	-4163397
Net cash flow from the core business activity	1897221	2699502	-11211933	-15953143
CASH FLOW FROM INVESTMENT ACTIVITIES				
Repayment of long-term investments	3744	5327	0	0
Acquisition of fixed assets	-10796623	-15362211	-4425309	-6296647
Sale of fixed assets and intangible assets	65697	93478	4840	6887
Investments in associated and related companies	-536672	-763615	-117000	-166476
Net cash flow from investment operations	-11263854	-16027020	-4537469	-6456237
CASH FLOW FROM FINANCING ACTIVITIES				
Short-term borrowings, net value (credit line) net worth	8320625	11839183	14263349	20294917
Long-term borrowings	1083476	1541647	891704	1268780
Paid liabilities for financial leasing	-1235448	-1757884	-46583	-66282
Loans to associated companies	-81500	-115964	-112448	-159999
Repayment of loans of associated and related companies	-300370	-427388	2027	2884
Other long-term loans	-3000	-4269	0	0
Long-term loan repayments	-330513	-470278	-523581	-744989
Costs not associated with operating activities	-85529	-121697	-80848	-115036
Other funding and grants received	319768	454989	223008	317312
Net cash flow from financing activities	7687509	10938340	14616628	20797588
Result of foreign currency exchange rate fluctuations	-545617	-776343	-193509	-275339
Net growth of cash and its equivalents	-2224741	-3165521	-1326283	-1887131
Cash and its equivalents at the beginning of accounting period	3971889	5651489	5284647	7519375
Cash and its equivalents at the end of accounting period	1747148	2485968	3958364	5632245

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 years	Equity capital TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
As of 01.01.2010.	16981033	49979936	0	44524829	-12204193	7779	99289384
Profit in reserves					12204193	-12204193	0
Undistributed profit of the reporting period					-6977235		-6977235
Minority shareholders						-94048	-94048
Increase of revaluation reserve							0
Written-off revaluation reserve		-3991283					-3991283
As of 31.12.2010.	16981033	45988653	0	44524829	-6977235	-12290462	88226818
Profit in reserves					6977235	-6977235	0
Undistributed profit of the review period					3886052		3886052
Minority shareholders						-110517	-110517
Increase of revaluation reserve							0
Written-off revaluation reserve		-5513804					-5513804
As of 31.12.2011.	16981033	40474849	0	44524829	3886052	-19378214	86488549

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
As of 01.01.2010.	24161833	71115042	0	63353124	-17365002	11069	141276066
Profit in reserves				0	17365002	-17365002	0
Reserves distribution							0
Undistributed profit of the reporting period					-9927711		-9927711
Minority shareholders						-133818	-133818
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-5679084					-5679084
As of 31.12.2010.	24161833.2	65435958	0	63353124	-9927711	-17487752	125535452
Profit in reserves					9927711	-9927711	0
Undistributed profit of the review period					5529354		5529354
Minority shareholders						-157252	-157252
Increase of revaluation reserve							0
Written-off revaluation reserve		-7845436					-7845436
As of 31.12.2011.	24161833.2	57590522	0	63353124	5529354	-27572714	123062118

INFORMATION ABOUT THE COMPANY

JSC "Liepājas Metalurģs" is a public joint-stock company, which operates in compliance with the Republic of Latvia law. The Company was registered in the Business Register of the Republic of Latvia on August 6, 1991 and it was reregistered in the Commercial Register of the Republic of Latvia on August 7, 2003 under the unified register No. 40003014197. The main activities of the Company are production of steel, rolled products and castings, commerce and mediator activity, transport services, sports and medical services.

JSC "Liepājas Metalurģs" has an ownership in various companies. In 2006 the Company further diversified its holding investing in several new companies. At the same time the Joint-Stock Company is not registered as a holding company (corporation).

Companies included in consolidation: number of shares - 91.6%. Business type - LSEZ JSC "Liepājas osta LM" (Liepāja's Port stevedoring services, cargo, ship broker service, LM) ship agency.

Ltd. "Sport Club Liepājas metalurģs" number of shares - 95%. Business type - organization of sporting events, promotion of healthy living, organization of recreation and social events.

Ltd. "Ice-Hockey Hall Liepājas metalurģs" number of shares - 95%. Business type - operation of the sport hall and stadium.

Ltd. "Metalurģs and Duna" number of shares - 50%. sale of electricity and rentals of premises, scrap purchase.

Ltd. "Rūķis LM" number of shares - 100%. Construction materials production, waste and crushed slag processing.

Ltd. "LM Resurss" number of shares - 100%. Scrap purchase;

Ltd. "Liepājas naglas" number of shares - 100%. Production of nails and wirerod

LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM) daughter company Ltd. "Liepājas ostas celtnieks LM" number of shares - 100% owns the LSEZ JSC "Liepājas osta LM". Construction.

Companies not included in consolidation:

JSC "Sātiņi Enerģo LM" number of shares - 50%. limestone extraction, processing, and realization.

LSEZ Ltd. "Elme-Messer-Metalurģs" number of shares - 18.69%. production of industrial gas.

Minority shareholders

Minority shareholders of the companies involved in the consolidation are:

Ltd. "Metalurģs and Duna" 50% of shares - JSC "Baltik invest Liepāja".

LSEZ JSC "Liepājas osta LM" 8.4% of shares - physical persons.

Ltd. "Sport Club Liepājas metalurģs" 5% of shares - Ltd. "Pērle LM"

Ltd. "Ice-Hockey Hall Liepājas metalurģs" 5% shares - Liepājas City Council

Basis for the Preparation of the Financial Statements Report

The Annual Report is prepared in accordance with the law "On Accounting" and "On Annual Report" and is also in compliance with the European Union (EU) International Standards on preparation of the Financial Statements.

Companies included in consolidation have prepared their Quarterly Reports for the same period and applying the same accounting principles.

The following IFRS have been used in the preparation of the consolidation:

- IAS 1 Preparation of the Financial Statements Report
- IAS 2 Inventories (Stocks)
- IAS 8 Accounting Policy, Changes in Accounting Reports and Errors
- IAS 10 Events After the Annual Report Date
- IAS 16 Fixed (Capital) Assets
- IAS 21 Impact from the Foreign Currency Exchange Rate Fluctuation
- IAS 27 Consolidated and Non-Consolidated Financial Statements I Reports
- IAS 39 Financial Tools: Recognition and Valuation

Assuming that the Company will continue its operations as a going concern, the valuation was conducted for:

- Production equipment inventory based on the average weighted prices
- Purchased goods according to the purchase price
- Finished goods margin after actual cost
- Fixed assets according to the purchase price and additional payments, which are connected to the erection and commissioning

The Statement of Comprehensive income is prepared using the turnover method. Prior to the preparation of the consolidated Quarterly Report, differences in the accounting methods used by the companies included in the consolidation were considered. The Profit and Loss report includes all income and expenses that resulted from the accounting year regardless of their payment date. Any internal transactions between the companies that are a part of the consolidation were excluded.

Net Turnover is a total amount equal to the product quarterly sales and services offered, excluding VAT.

Cash Flow Statement is conducted by using direct method.

Depreciation of fixed assets is calculated at the time of useful life of a particular asset, by using the straight-line method. In the Balance Sheet all fixed assets are recorded at historical cost. Land depreciation is not calculated.

Revaluation of fixed assets is performed periodically in accordance with the International Valuation Standards. As a result of this revaluation, the value increase is recorded, which is shown in the Shareholders' Equity item called "Long-Term Assets Revaluation Reserve".

Purchased computer software belongs to the **intangible assets** item. The value of the acquired intangible assets is depleting, while calculating their depreciation. Conducting a subsidiary reorganization and during the acquisition process a nonmaterial positive value appears.

Investment properties include buildings and land that the Company leases in order to generate additional earnings and increase the property value. These properties are not used in production, goods transport services, or for the need of administration. Investment properties are appraised based on their true value, which reflects the current market value. The appraisal is performed by the certified and licensed property appraiser. Corresponding profit or loss caused by the true value adjustments to the Investment Properties has been reflected in the Profit and Loss Statement.

The cash flow statement reflects cash and cash equivalents in the cash office, current bank account balances, and short-term deposit.

Values presented in the Annual Report and accounting are expressed in the Latvian national currency - lats (LVL). All foreign currency activities are recalculated by the official currency exchange rate of the Bank of Latvia on the transaction corresponding date. Assets and liabilities reported in a foreign currency are recalculated into Latvian Lats based on the official exchange rate at the Bank of Latvia. Foreign currency exchange profit or loss is reflected in the proper period Profit and Loss statement.

Accounts receivable (debtors) are presented in their book value, by deducting specific provisions for bad and doubtful debts. Following the conservative approach, the balance sheet includes only the actual accounts receivable dues. JSC "Liepājas Metalurģis" uses such forms of short-term financing as factoring. The Company operates under a recourse factoring agreement, where the Company is held responsible in front of the bank in cases when the buyer fails to deliver the payment.

Creditor obligations are reflected in their costs and are in compliance with documentation and records in accounting registries. In the short-term creditor periods are included those amounts, which have a repayment terms in the nearest 12-month periods after the end of the reporting period.

Credited to the factor advance payments in the financial report are reflected as a borrowing (in the balance sheet as other borrowings).

Long-term liabilities are mostly reflected as borrowings of the JSC "Liepājas Metalurģis" towards revamping of the steel melting processes. On December 29, 2009 all the terms and conditions were agreed with one of the leading Italian banks UniCredit MedioCredito Centrale S.p.A. on the documentation package concerning financing agreements related to the modernization of the Company. The total amount of the Bank's financing is EUR 85'597'300 (60 milj. LVL). The repayment period of the loan - the year of 2020.

The loan was secured by the state guarantee issued by the Republic of Latvia and Italian Export Credit Agency. There is a Commercial Pledge agreement concluded between the JSC "Liepājas Metalurģis" and the Ministry of Finance of the Republic of Latvia. The state guarantee used for the loan is secured by the moving assets, current meltshop, and new technology equipment.

Provisions are foreseen for the coverage of certain kind of losses, liabilities, or expenses, which are related to the reporting year or previous years, which at the moment of the balance sheet are foreseen or well known, but which repayment term is not defined. Provisions for doubtful debtors are not reflected in the balance sheet, however, debtor totals in the balance sheet are reduced by this amount, because these amounts are usually the same.

Net income in the reporting period received investments in the capitals of the daughter companies includes the difference between the purchased value and equity at the acquisition moment.

Events occurred after the Balance Sheet date. There have been no events in the time period since the last day of the review period which would materially affect the financial health of the companies included in the consolidated financial statements.

ENCLOSURES TO THE FINANCIAL REPORT (Consolidated)

ENCLOSURES TO FINANCIAL POSITION

1. Accounts Receivables (Debtors)

Accounts Receivable	As of 31.12.2011.		As of 31.12.2010.	
	LVL	EUR	LVL	EUR
Customers and affiliated companies' debts	5530544	7869255	2412860	3433190
Incl. Debts of buyers and customers	5305967	7549711	2157221	3069449
Incl. Debts of buyers with factoring activities	110793	157644	33711	47966
Incl. Debts of related enterprises (subsidiaries)	0	0	183395	260948
Incl. Debts of associated enterprises (Doubtful debtors debt)	113784 /423435/	161900 /556451/	38533 /391076/	54828 /186628/
Other debtors	1473833	2097075	1077397	1532998
Incl. Provision for VAT and unpaid VAT	34646	49297	110492	157216
Incl. Advance payments	5900	8395	1259	1791
Incl. VAT budget overpayments	1162798	1654512	910623	1295700
Incl. Debt for caused damages to the enterprise	0	0	0	0
Incl. Various debtors	151493	215555	34034	48426
Incl. Overpaid salaries	0	0	93	132
Incl. Advance payments for services	59696	84940	15436	21963
Incl. Advance prepayment for Corporate income tax	34157	48601	921	1310
Incl. Other overpaid taxes	0	0	3603	5127
Incl. Security amounts in auction	25143	35775	936	1332
Short-term loans to employees	7488	10654	6129	8721
Accrued income	24157	34372	28878	41090
Future periods payments	85648	121866	107797	153381
Incl. Press expenses	7334	10435	8524	12129
Incl. Various	1038	1477	35590	50640
Incl. Property insurance	72925	103763	48246	68648
Incl. Payment for ship freightage services	3959	5633	15119	21512
Incl. Publicity and Advertisement	392	558	318	452
Total Debtors:	7121670	10133223	3633061	5169380

2. 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	206303	293543	211198	300508	0	0	300	427
Real estate tax (land)	116	165	98225	139762	98224	139760	0	0	117	166
Residents' Income tax	322486	458856	3091460	4398751	3086032	4391028	0	0	327914	466580
Social Security tax	478358	680642	5585977	7948129	5478185	7794755	719	1023	585431	832993
Corporate risk charge	677	963	8216	11690	8199	11666	0	0	694	987
Corporate Income tax	21236	30216	33203	47244	89359	127146	4123	5867	-30797	-43820
Nature resources tax	32707	46538	34691	49361	54150	77049	0	0	13248	18850
Nature resources tax (packing)	-99	-141	0	0	0	0	99	141	0	0
Value added tax	-295042	-419807	510451	726306	279629	397876	0	0	-64220	-91377
TOTAL	565634	804825	9568526	13614786	9304976	13239788	4941	7030	832687	1184807
VAT overpayment (input)	-706357	-1005055	8722381	12410830	8717320	12403629	8394082	11943703	7682664	10931446
including: credit obligations (balance sheet liabilities)	884627	1258711							984324	1400567
tax overpayment (balance sheet assets, accounts payable)	-318993	-453886							-162788	-231626

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

3. Accounts Payable (Creditors)

CREDITORS	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Long- term creditors (credit institutions)	51149544	72779244	27287818	38827067
Other long-term borrowings	3046992	4335479	1469971	2091580
Other creditors	15146	21551	175146	249210
Short-term borrowings from credit institutions	1512543	2152155	1486576	2115207
Loan interest	55006	78266	29642	42177
Short-term borrowings from credit institutions (credit line)	29714646	42280132	13491025	19195999
Short-term debt from leasing	827520	1177455	569652	810542
Advance payments (from residents)	2416654	3438589	143843	204670
Advance payments (from non-residents)	30884641	43944885	41361580	58852226
Other borrowings (factoring)	130201	185259	33711	47966
Other borrowings	40000	56915	131365	186916
Debts to suppliers and contractors	35838782	50993993	11002550	15655218
Incl. Materials and gas	18146366	25819953	7396242	10523904
Incl. Services	10497529	14936638	1844330	2624245
Incl. Scrap, various services related to scrap delivery, processing	6825967	9712476	1549367	2204551
Incl. Fixed assets	234529	333705	211541	300996
Incl. Medical department creditors	2667	3795	970	1380
Incl. Other Creditors	131724	187426	100	142
Debts to associated enterprises	559907	796676	160347	228153
Accrued liabilities	369660	525979	1913939	2723290
Taxes and social security insurance payments	984324	1400567	884627	1258711
Incl. Value added tax	27008	38429	19716	28053
Incl. State tax	695	989	689	980
Incl. Residents' Income tax	328627	467594	322487	458858
Incl. Real estate tax	417	593	5311	7557
Incl. Social Security tax	585431	832993	478358	680642
Incl. Packing tax	0	0	0	0
Incl. Nature resources tax	13247	18849	32707	46538
Incl. Enterprise's Income tax	28899	41120	25359	36083
Other creditors (liabilities)	911025	1296272	846905	1205037
Incl. Payments for salaries	807932	1149584	781054	1111340
Incl. Deductions from salaries	34488	49072	32159	45758
Incl. Debt to accountable persons	1561	2221	2858	4067
Incl. Other Creditors	67044	95395	30834	43873
Total Creditors:	158456591	225463417	100988697	143693970

ENCLOSURES TO STATEMENTS OF COMPREHENSIVE INCOME

4. Net turnover (revenue) by products

Product Description	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Rolled steel	203933553	290171304	192169256	273432217
Castings	226935	322899	93981	133723
Wire	768788	1093887	0	0
Nails	655601	0	0	0
Slag	599511	853027	353014	502294
Services	316396	450191	529819	753865
Construction works	177809	252999	0	0
Sold steam, gCal	8024	11417	24451	34791
Medical department	882970	1256353	916703	1304351
Transportation services	11083	15770	7617	10838
Stevedoring services	5163613	7347159	4341852	6177899
Broker services	2636595	3751537	2328446	3313080
Freightage services	1530	2177	39070	55592
Forwarder and other services	4752910	6762782	2185858	3110196
Sports	348790	496283	527190	750124
Publicity and Advertisement	59146	84157	62661	89159
Beton (concrete) wares	959485	1365224	499993	711426
Other income	31782	45222	0	0
Scrap sale	28452	40484	0	0
Electric energy	88105	125362	72566	103252
TOTAL	221651078	315381071	204152477	290482805

5. Net turnover by geographic markets

Market	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
European Union countries	185686452	264208018	111737364	158987945
Other third countries	35964626	51173053	92415113	131494859
Total	221651078	315381071	204152477	290482805

6. Production costs of sold goods

Cost Description	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Materials	171184499	243573598	168654884	239974280
Salaries and wages	11760144	16733177	11473597	16325458
Social benefits deduction	2780664	3956528	2716441	3865147
Depreciation	5533159	7872976	6703804	9538654
Other costs	14297975	20344186	12801525	18214929
Write-off of nonmaterial values	68500	97467	67126	95512
Total	205624941	292577932	202417377	288013980

7. Sales expenses

Cost Description	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Packing materials	34801	49517	76120	108309
Transportation costs	3100605	4411763	1439956	2048873
Freight	144299	205319	156418	222563
Port handling charges	137548	195713	45463	64688
Advertising and marketing costs	60892	86642	34448	49015
Other sales costs	290495	413337	255167	363070
Logistics services costs	5374525	7647260	3607413	5132886
Costs related to L/C and factoring transactions	11398	16218	67881	96586
Total	9154563	13025770	5682866	8085990

8. Administration expenses

Cost Description	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Salaries and social costs	3840701	5464825	4004013	5697197
Communication costs	92809	132055	107655	153179
Office supplies and office maintenance costs	1011482	1439209	890494	1267059
Legal and auditing fees	149190	212278	88341	125698
Presentation costs	312937	445269	333948	475165
Depreciation of fixed assets	227438	323615	233156	331751
Traveling expenses	90674	129017	111761	159022
Management training	5261	7486	12620	17957
Costs of bank account services	72190	102717	59746	85011
Costs related to stockholders	21225	30200	21538	30646
Total	5823907	8286673	5863272	8342684

9. Other operating income

Income Description	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Sale of current assets	4179713	5947196	1537835	2188142
Liquidation of fixed assets and sale	947395 1689769	1348022 2404325	97912 4000	139316 5691
Written-off revaluation reserve of fixed assets	3232447	4599358	158100	224956
Currency exchange income	0	0	694192	987746
Received fine payments	20012	28475	23090	32854
Received discounts	45767	65121	617707	878918
Bad debt recovery	132196	188098	2541	3616
Other income from operating activity	1000134	1423062	4530897	6446886
Income recorded from the inventory decrease	0	0	9000	12806
Dotation (allowance)	451723	642744	631059	897916
Investment property revaluation	102000	145133	0	0
Total	11801156	16791532	8306333	11818847

10. Other operating costs

Cost Description	As of 31.12.2011		As of 31.12.2010	
	LVL	EUR	LVL	EUR
Sales costs of current assets	4340751	6176332	848911	1207892
Costs related to the sale and and liquidation of fixed assets	694993 523584	988886 744993	2800 65039	3984 92542
Currency exchange loss	749277	1066125	0	0
Provisions for bad debts	166889	237462	270459	384828
Bad debt write-off	131954	187754	21754	30953
Investment property value reduction	0	0	87000	123790
Compensation for damage and other allowances	63040	89698	68600	97609
Other costs	1013265	1441746	363687	517480
Paid fines	3573	5084	58696	83517
Costs not related to the operating activities	297790	423717	374239	532494
Costs of infrastructure maintenance	20714	29473	20974	29843
Training of new employees	35481	50485	47366	67396
Costs of previous period	18549	26393	41265	58715
Extraordinary costs (modernisation)	874506	1244310	1913228	2722278
Costs of representative auto maintenance	45970	65409	42926	61078
Total	8980336	12777867	4226944	6014399