

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

Annual Report
(audited)

For the year 2012
(01.01.2012. - 31.12.2012.)

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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 14 to 42 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012 and the profit and loss account and the statements of changes in equity and cash flows for the year 2012, 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 the Law of the Republic of Latvia on Annual Reports, 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 2012, and of its financial performance and its cash flows for the year 2012 in accordance with the Law of the Republic of Latvia on Annual Reports.

Registration No: 40003035771
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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Emphasis of matter

Without qualifying our opinion, we draw your attention to the paragraph "Circumstances and events following the closing of Balance Sheet" of the Management Report stating that the manufacturing in year 2013 is organized with idle times, the fulfillment of current liabilities is jeopardized, measures are taken for acquisition of investors' funds, which is an essential precondition for realizing the assets and discharging the liabilities of the Company in an ordinary course of entrepreneurship. These circumstances along with other matters mentioned in the Management Report indicate the existence of a material uncertainty that may cast significant doubt on JSC "Liepājas Metalurģs" ability to continue its operations in a long term as a going concern.

Report on Other Legal and Regulatory Requirements


We have read the management report for 2012 set out on pages 6 to 7 of the accompanying annual report for 2012 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2012.

AS "BDO"
Company of Certified Auditors
Licence No 112

Dainis Tunsts
International Liaison Partner

Riga, Latvia,
30 April 2013




Aivars Putniņš
Certified auditor of Latvia
Certificate No. 123

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 2012
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) 23%
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: 2325

JOINT-STOCK COMPANY "LIEPĀJAS METALURĢS" MANAGEMENT STATEMENT REGARDING THE FINANCIAL STATEMENTS FOR THE YEAR 2012.

Characteristics of activities

The Joint Stock Company Liepājas Metalurģs is the only steel production plant in the Baltic States and its core business is production of steel. The Joint Stock Company Liepājas Metalurģs has not change its kind of activities, during the reporting period.

Activity of the company during the reporting period

Net turnover of the Joint Stock Company Liepājas Metalurģs in 2012 amounted to LVL 305.2 Mio (EUR 434.3 Mio.), that is by LVL 99.1 Mio. (EUR 141.0 Mio.) more than in 2011. The increase of net turnover is related to the fact that during the reporting period the production and sales volumes of reinforcement bars increased by 43.5% compared to the previous year.

Operating losses in 2012 amount to LVL 11,3 Mio (EUR 16,1 Mio), while in 2011 profit from operating activities amounted to LVL 2.47 Mio. (EUR 3.5 Mio.). The losses in 2012 are related to the present ferrous metal market situation. The level of sales prices has decreased by 2.5% compared to the previous years, while the production costs have increased. Steel production reached its planned capacity in June, 2012.

During the reporting period the obligatory electricity surcharge ("OIK") paid by the Joint Stock Company amounted to LVL 5.9 Mio. (EUR 8.25 Mio.), that is by 168.2% more than in 2011.

Credit liabilities

The Joint Stock Company Liepājas Metalurģs as of December 31, 2012 has short-term liabilities for LVL 8,6 Mio and long-term liabilities for LVL 43.1 Mio. (total EUR 73,6 Mio.) related to the revamping of steel production technology for what the JSC Liepājas Metalurģs receive the State guarantee.

Considering the global steel market crisis, as of December 31, 2012 short-term liabilities of the Joint Stock Company Liepājas Metalurģs exceeded the current assets amount in 1,8 times, in result of what the liquidity ratio was 0.54 which is below the optimal level. Liabilities over equity ratio in 2012 was 2.23.

Key events in 2012

- COSS technology of scrap charging system was upgraded to achieve the planned project capacity;
- 8415 m² of auto roads and 3020 m² of technological roads to ensure the work of the Electric steel melting production;
- LVL 15.6 Mio. (EUR 22.2 Mio.) were attributed to investments during the reporting period. LVL 81.9 Mio. (EUR 116.5 Mio.), including resources from UniCredit amounting to LVL 60.1 Mio. (EUR 85.5 Mio.), were invested in steel plant modernization and infrastructure establishment since the revamping was started.

Prospective development and plans of the Joint Stock Company "Liepājas metalurģs"

In Steel melting production:

- Development of production technology to produce a new product, billet 130 x 130 mm, and adoption of the 2nd level automated control and accounting system in Electric steel melting production.

In rolling process:

- Development of slitting process for sizes 14 mm and 16 mm in Rolling Mill No. 250/350;
- Further development of preparing thermos-railcars for delivery of hot billets, reconstruction of billet charging line in Rolling Mill No. 350.
- Adoption of energy-efficient technologies for continuous billet-heating furnaces.

Circumstances and events following closing of Balance-Sheet

The following events occurred between the ending date of the financial report and the date when the Board of Liepājas Metalurģs reviewed the annual report:

- Due to the industry crises tendency in EC in metalurgy, the production in Q1 2013 was organized with idle times, by utilizing about 75% of the full capacity, however, 30% was utilized in the month of April. Because of the mention reason the planed cash flow decreases in rezult of what jeopardizes the fulfillment of the current liabilities. The Club of Creditors was established in order to manage the appeared situation. This Club involved SIA "Prudentia Advisors" as a consultant to seek a solution to the Liepājas Metalurģs issue.
- Considering the current situation, the JSC Liepājas Metalurģs submitted a letter Nr. 1834/31-1 dated 19.04.2013 to the Treasury of the Republic of Latvia asking to look for a possibility to pay the loan outstanding principal amount due LVL 4.3 mio. (EUR 6.1 mio.) to the Italian bank UniCredit S.p.A.
- The Board of JSC Liepājas Metalurģs has approved the cost-saving plan prepared by the Company's departments, which included the production and administration cost cuts.
- In order to restart the production and to improve the financial situation, the main emphasis will be put on the acquisition of investors' funds, which is an essential precondition for realizing the assets and regulating the liabilities by the Company in the regular course of entrepreneurship.
- financial report is produced, keeping in mind the principle of activity continuation as the management of the Company believes, that an up-to-date technology has been introduced in the plant and the jobs need to be kept in a producing enterprise. Due to this reason the management if the Company has been intensively negotiating with the potential investors.

On behalf 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, 2012 as well as the results of its operations and cash flow for the year 2012. The above-mentioned financial statements are prepared in accordance with the “Annual Reporting Policy” and the Cabinet of Ministers clause Nr.488 “Annual Reporting Policy Procedure Application”. 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 business activity's continuation.

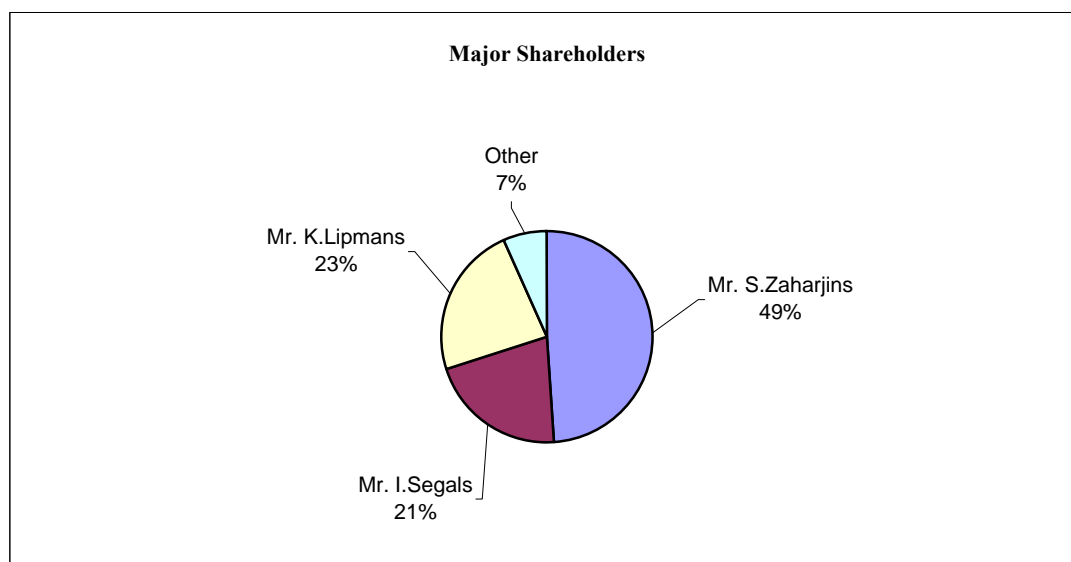
On behalf of the JSC "Liepājas Metalurģs"

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:

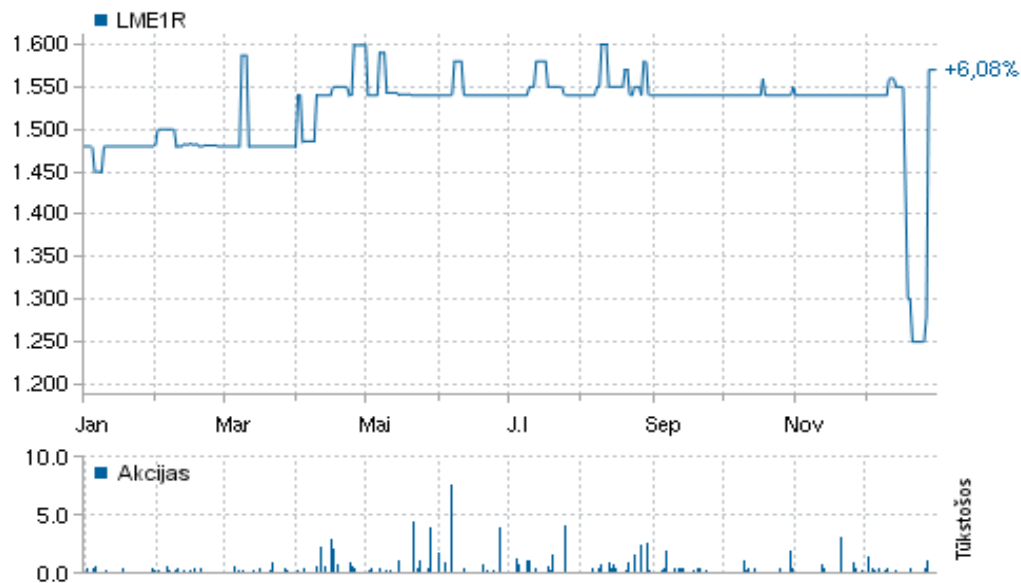
ISIN	LV0000100535
Ticker	LME1R
Nominal value	1,00 LVL
Total number of securities	16 981 033
Number of listed securities	16 981 033
Liquidity providers	None
Indexes	B1000GI, B1000PI, B1700GI, B1700PI, OMXBGI, OMXBPI, OMXRGI



Share price development							
	2006	2007	2008	2009	2010	2011	2012
Opening price, LVL	2.10	2.52	1.15	1.15	1.12	1.20	1.48
Max price, LVL	2.61	4.45	4.08	1.90	1.74	1.65	1.60
Min price, LVL	1.55	2.06	1.00	0.70	0.90	1.12	1.25
Average price, LVL	1.58	2.70	2.06	0.92	1.22	1.55	0.90
Closing price, LVL	2.45	3.78	1.15	1.12	1.2	1.48	1.57
No of shares traded	660,761	701,512	220,418	462,795	96,878	796,971	86 474
Turnover, million LVL	1.28	2.27	0.46	0.44	0.11	1.21	0.13
Capitalization mill, LVL	41.60	64.19	19.53	19.02	22.37	25.13	26.66
Change, %	16.67	50.00	0.00	-2.61	7.14	23.33	6.08
Deals						508	323

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

JSC "Liepājas metalurģs" share price development for the period 01.01.2012 – 31.12.2012



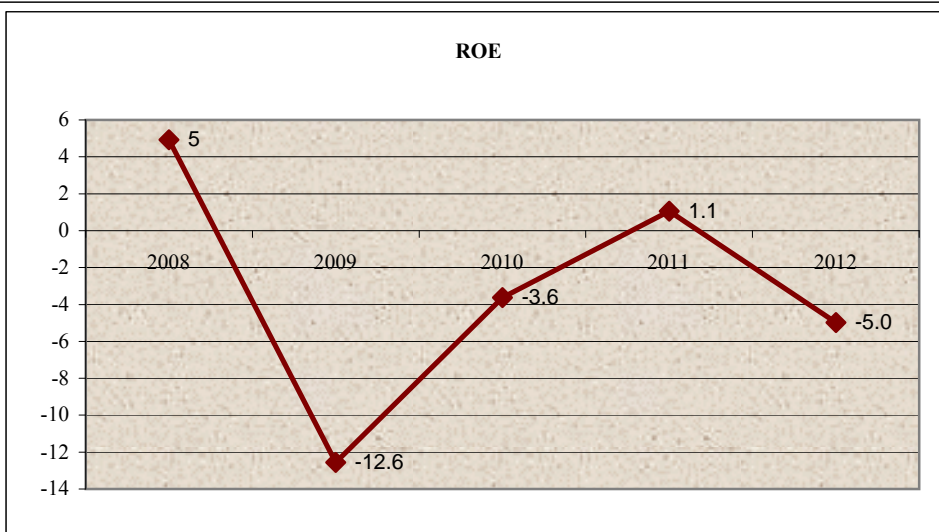
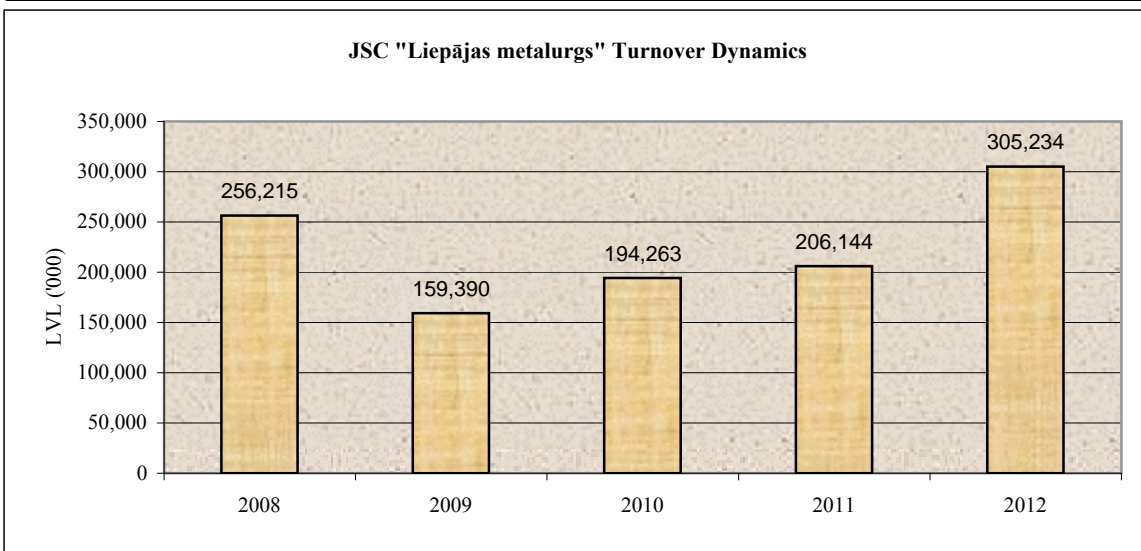
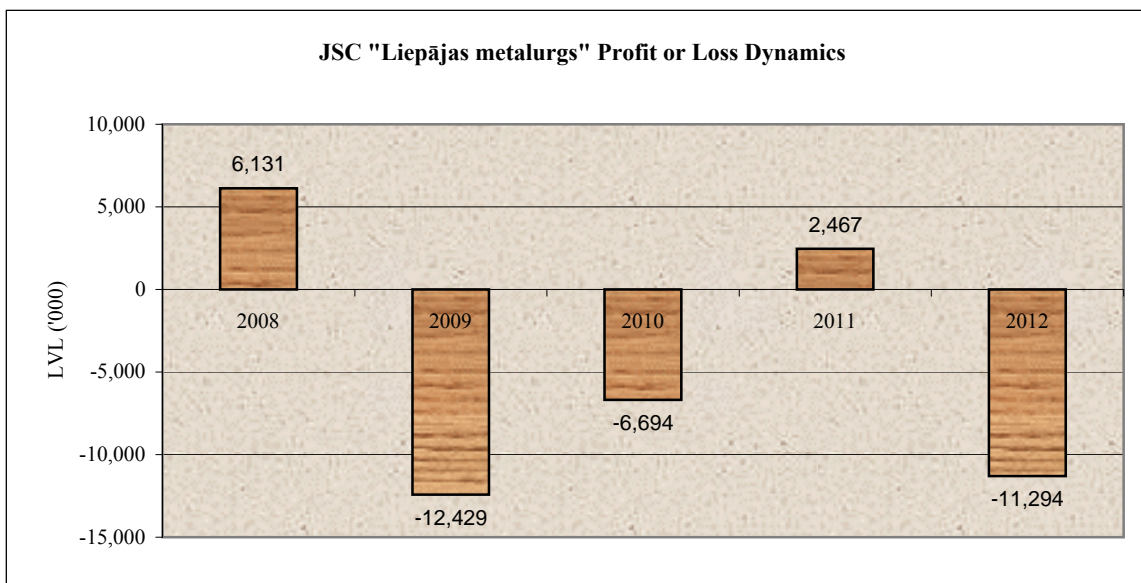
JSC "Liepājas metalurģs" share price development for the period 01.01.2010 – 31.12.2012

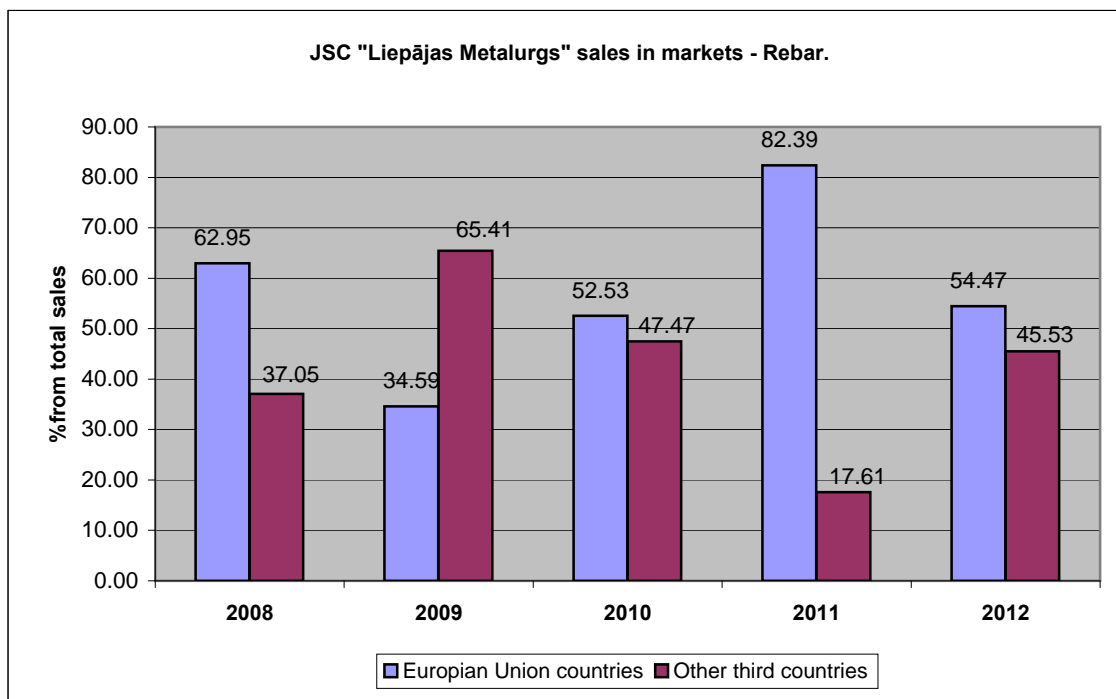
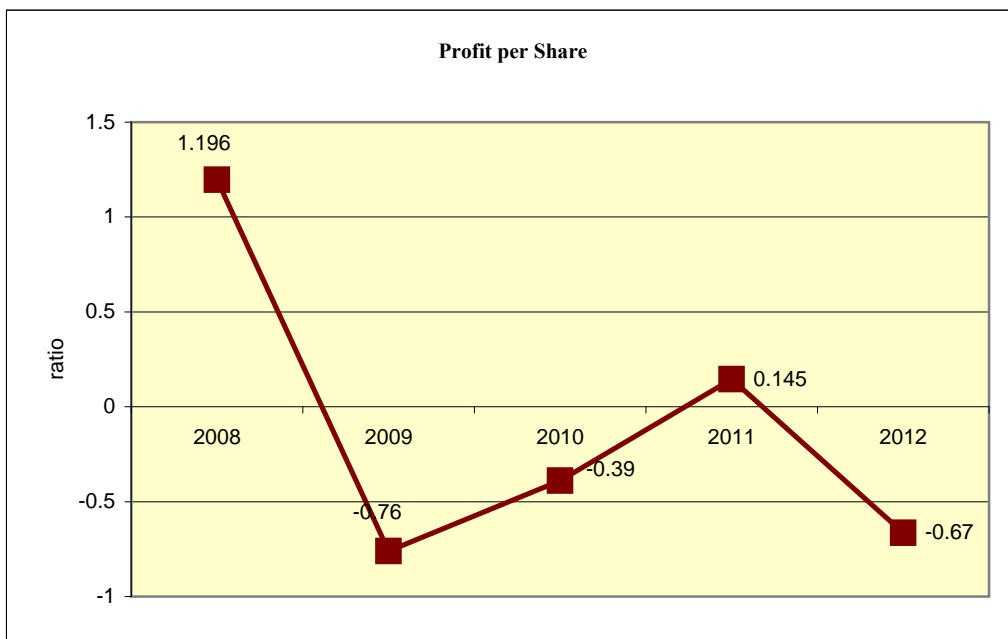


JSC "Liepājas metalurģs" share price development in comparison with NASDAQ OMX Riga index for the period 01.01.2010 – 31.12.2012



FACTS AND NUMBERS





BALANCE SHEET for the year 2012 (audited)

ASSETS	Enclosure Number	As of 31.12.2012.		As of 31.12.2011.	
		LVL	EUR	LVL	EUR
1.LONG-TERM INVESTMENTS					
I. Intangible investments					
1. Other intangible investments		44265	62983	27207	38712
2. Advance payments for intangible investments		0	0	0	0
I. TOTAL:		44265	62983	27207	38712
II. Fixed assets					
1. Land, buildings and constructions and long-term sites					
		62261935	88590752	49451863	70363662
2. Long-term investments in rent fixed assets		536945	764004	268625	382219
3. Technological equipment and machinery		87914643	125091267	21965858	31254600
4. Other fixed assets and inventory		981123	1396012	1357814	1931995
5. Fixed assets formation and costs of unfinished construction sites		282006	401258	73317797	104321827
6. Advance payments for fixed assets		8827	12560	209099	297521
II. TOTAL:		151985479	216255854	146571056	208551824
III. Investment properties					
1. Investment properties		4901000	6973495	5024000	7148508
IV. Long-term financial investments					
1. Share in the related companies (subsidiaries)		9087083	12929754	9085062	12926879
2. Loans to the related companies (subsidiaries)		100771	143384	9704	13808
3. Share in the capital of associated companies		1593551	2267419	1522959	2166975
4. Loans to the associated companies		85168	121183	81500	115964
IV. TOTAL:	1	10866573	15461740	10699225	15223626
Section 1 total amount:		167797317	238754072	162321488	230962670
2. CURRENT ASSETS					
I. Stock (Inventories)					
1. Raw materials, basic and auxiliary materials		19478602	27715554	9548118	13585748
2. Unfinished products, Work-in-Process		1389428	1976978	2386206	3395265
3. Finished products and goods for sales		26662203	37936897	51760861	73649070
4. Incompleted orders		195739	278512	166202	236484
5. Advance payments for goods		1144106	1627916	636784	906062
I. TOTAL:		48870078	69535856	64498171	91772629
II. Accounts receivable (Debtors)					
1. Trade accounts receivable		8303313	11814550	4054155	5768543
2. Debt of related companies (subsidiaries)		422196	600731	482266	686203
3. Debt of associated enterprises		0	0	113784	161900
4. Other debtors (accounts receivable)		1201206	1709162	1218983	1734457
5. Prepaid expenses		70928	100921	56317	80132
II. TOTAL:	2	9997643	14225364	5925505	8431234
III. Short-term financial investments					
III. TOTAL:		0	0	0	0
IV. Cash					
		385628	548699	1301802	1852297
IV. TOTAL:		385628	548699	1301802	1852297
Section 2 total amount		59253349	84309920	71725478	102056161
TOTAL ASSETS		227050666	323063992	234046966	333018830

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	As of 31.12.2012.		As of 31.12.2011.	
		LVL	EUR	LVL	EUR
1. SHAREHOLDERS' EQUITY					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		36732009	52264940	40402465	57487529
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		44524829	63353124	44524829	63353124
TOTAL:		44524829	63353124	44524829	63353124
4. Retained earnings					
a) undistributed profit from the previous years		-16656865	-23700584	-19123497	-27210285
4. Retained earnings					
b) undistributed profit of the reporting year		-11294203	-16070203	2466633	3509703
section 1 total amount:		70286803	100009111	85251463	121301904
2. PROVISIONS					
1. Other provisions		856000	1217978	831400	1182976
section 2 total amount:	3	856000	1217978	831400	1182976
3. LIABILITIES (Accounts Payable)					
I. Long-term Creditors (Accounts Payable).					
1. Loans from credit institutions		43107608	61336600	48718491	69320168
2. Other loans		3162759	4500201	0	0
3. Provisions for anticipated taxes		0	0	1295020	1842647
I. TOTAL:		46270367	65836801	50013511	71162815
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		31545387	44885042	29769652	42358399
2. Other loans		2238073	3184491	33711	47966
3. Advance payments received from customers		23563182	33527387	30946000	44032191
4. Suppliers and contractors trade account payable		46365169	65971692	34604233	49237388
5. Accrued liabilities (Payable bills of exchange)		2369531	3371539	282825	402424
6. Payable (debt) to related companies (subsidiaries)		1494798	2126906	223541	318070
7. Payable (debt) to associated companies		476964	678659	583401	830105
8. Taxes and state social insurance payments	4	758763	1079622	715484	1018042
9. Other liabilities		825629	1174764	791745	1126552
II. TOTAL:		109637496	156000102	97950592	139371136
Section 3 total amount:	5	155907863	221836903	147964103	210533951
TOTAL LIABILITIES AND EQUITY		227050666	323063992	234046966	333018830

On behalf of the JSC "Liepājas metalurģs"

Chairman of the Board _____ V.Terentjevs

PROFIT OR LOSS STATEMENT

for the year 2012 (audited)

No.	Parameter designation	Enclosure Number	As of 31.12.2012.		As of 31.12.2011.	
			LVL	EUR	LVL	EUR
1	Net turnover	6,7	305233536	434308194	206144121	293316659
2	Production costs of goods sold	8	-293172109	-417146330	-194769012	-277131337
3	Gross profit or loss (from turnover)		12061427	17161864	11375109	16185322
4	Sales costs	9	-11214160	-15956312	-4339666	-6174788
5	Administration costs	10	-4802204	-6832921	-4523021	-6435679
6	Other operating income	11	6436968	9158980	10649641	15153074
7	Other operating costs	12	-8948327	-12732322	-9780114	-13915849
8	Interest income and other similar income	13	12387	17625	41948	59687
9	Interest payments and similar expenses	14	-5854979	-8330885	-850224	-1209760
10	Profit or loss before extraordinary items and taxes		-12308888	-17513969	2573673	3662008
11	Profit or loss before taxes		-12308888	-17513969	2573673	3662008
12	Income tax for the reporting period		0	0	0	0
13	Deferred tax		1295020	1842647	175330	249472
14	Other taxes		-280335	-398880	-282370	-401776
15	Reporting period profit or loss after taxes		-11294203	-16070203	2466633	3509703

The JSC "Liepājas metalurģs" demonstrated profit at the rate of -0.665 LVL (EUR -0.946) 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).

On behalf of the JSC "Liepājas Metalurģs"

Chairman of the Board _____ V. Terentjevs

CASH FLOW STATEMENT (by direct method) for the year 2012

	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
OPERATING CASH FLOW				
Cash received from buyers	304106213	432704158	203883763	290100459
Cash received from other business activities	89531	127391	1224016	1741618
VAT overpayment received	2745766	3906873	1619075	2303736
Bank interest received	7408	10541	40416	57507
Cash paid to suppliers and employees	-291238211	-414394641	-203106668	-288994752
Other expenses associated with operating activities	-19897	-28311	-3848	-5475
Cash received from the core business activity	15690810	22326011	3656754	5203092
Interest payment	-2929483	-4168279	-840074	-1195318
Corporate income tax payment	0	0	0	0
Other tax payments	-335422	-477263	-909773	-1294490
Net cash flow from the core business activity	12425905	17680470	1906907	2713284
CASH FLOW FROM INVESTMENT ACTIVITIES				
Long-term loans to related companies	-91365	-130001	-81500	-115964
Acquisition of fixed assets	-3427972	-4877565	-9189356	-13075276
Sale of fixed assets and intangible assets	8550	12166	0	0
Investments in related (associated) companies	-70592	-100443	-536672	-763615
Net cash flow from investment operations	-3581379	-5095843	-9807528	-13954855
CASH FLOW FROM FINANCING ACTIVITIES				
Short-term borrowings in net value (credit line)	1286834	1831000	7630343	10857000
Repayment of long-term borrowings	-8436310	-12003788	0	0
Repayment of other long-term liabilities	-562102	-799799	0	0
Paid liabilities for financial leasing	-345346	-491383	-153080	-217813
Repayment of loans and interests from related companies	376	535	36904	52510
Costs not associated with operating activities	-1478528	-2103756	-1365529	-1942973
Net cash flow from financial activities	-9535076	-13567191	6148638	8748724
Result of foreign currency exchange rate fluctuations	-225624	-321034	-544918	-775348
Net growth of cash and its equivalents	-916174	-1303598	-2296901	-3268196
Cash and its equivalents at the beginning of accounting period	1301802	1852297	3598703	5120493
Cash and its equivalents at the end of accounting period	385628	548699	1301802	1852297

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
As of 01.01.2011.	16981033	45916269	0	44524829	-6694016	-12429482	88298633
Previous year profit put in reserves					6694016	-6694016	0
Undistributed profit of the reporting period					2466633		2466633
Reserves distribution							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-5513804					-5513804
As of 31.12.2011.	16981033	40402465	0	44524829	2466633	-19123498	85251462
Previous year profit put in reserves					-2466633	2466633	0
Undistributed profit of the review period					-11294203		-11294203
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-3670456					-3670456
As of 31.12.2012.	16981033	36732009	0	44524829	-11294203	-16656865	70286803

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 01.01.2011.	24161833	65332965	0	63353124	-9524727	-17685560	125637636
Previous year profit put in reserves					9524727	-9524727	0
Undistributed profit of the reporting period					3509703		3509702.56
Reserves distribution							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-7845436					-7845436.28
As at 31.12.2011.	24161833	57487529	0	63353124	3509703	-27210286	121301902
Previous year profit put in reserves					-3509703	3509703	0
Undistributed profit of the review period					-16070203		-16070203
Increase of fixed capital							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-5222588					-5222588
As of 31.12.2012.	24161833	52264940	0	63353124	-16070203	-23700584	100009110

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
Beginning value on 31.12.2011.	319454	53937827	282755	41451031	3698817	73317797	209099	173216780
Acquired and turned in to usage in 2012	34729	15599444	589229	71978134	292770	15686769	311546	104492621
Moved to accounts	0	0	-282755	282755	0	-88722560	-511818	-89234378
Moved from accounts	0	601444	0	0	0	0	0	601444
Written-off	0	-2709389	0	-585458	-211168	0	0	-3506015
on 31.12.2012.	354183	67429326	589229	113126462	3780419	282006	8827	185570452
DEPRECIATION								
on 31.12.2011.	292247	4485965	14130	19485173	2341003	0	0	26618518
Calculated depreciation	17671	863677	94675	6078254	625095	0	0	7679372
Transferred	0	0	-56521	56521	0	0	0	0
Moved over written-off depreciation	0	-182251	0	-408129	-166802	0	0	-757182
on 31.12.2012.	309918	5167391	52284	25211819	2799296	0	0	33540708
Balance Value on 31.12.2011.	27207	49451862	268625	21965858	1357814	73317797	209099	146598262
Balance Value on 31.12.2012.	44265	62261935	536945	87914643	981123	282006	8827	152029744

Cadastral value

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

	Yr. 2011	Yr. 2012
buildings	14000109 LVL	12429160 LVL
land	6885249 LVL	6888217 LVL

Investment properties, (LVL)

On 31.12.2010.	5024000
Moved from Fixed Assets	0
Revaluated profit or loss	0
	-123000
Investment properties in Balance on 31.12.2011	4901000

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 31.12.2011.	454542	76746614	402324	58979504	5262941	104321827	297521	246465274
Acquired and turned in to usage in 2012	49415	22196009	838397	102415658	416574	22320261	443290	148679605
Moved to accounts	0	0	-402324	402324	0	-126240830	-728251	-126969081
Moved from accounts	0	855778	0	0	0	0	0	855778
Written-of	0	-3855113	0	-833032	-300465	0	0	-4988610
on 31.12.2012.	503957	95943288	838397	160964454	5379051	401258	12560	264042966
DEPRECIATION								
on 31.12.2011.	415830	6382953	20105	27724903	3330947	0	0	37874739
Calculated depreciation	25145	1228902	134710	8648576	889430	0	0	10926763
Transferred	0	0	-80422	80422	0	0	0	0
Moved over written-off depreciation	0	-259320	0	-580715	-237338	0	0	-1077373
on 31.12.2012.	440974	7352535	74393	35873187	3983039	0	0	47724129
Balance Value on 31.12.2011.	38712	70363660	382219	31254601	1931994	104321827	297521	208590534
Balance Value on 31.12.2012.	62983	88590753	764004	125091267	1396012	401258	12560	216318837

Cadastral value

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

	Yr. 2011	Yr. 2012
buildings	19920360 EUR	17685101 EUR
land	9796827 EUR	9801050 EUR

Investment properties, (EUR)

On 31.12.2011.	7148508
Moved from Fixed Assets	0
Revaluated profit or loss	0 -175013
Investment properties in Balance on 31.12.2012	6973495

ENCLOSURES TO THE FINANCIAL REPORT

ACCOUNTING POLICY

Basis for Preparation of the Annual Report

The Annual Report is prepared in accordance with the "Annual Report Law" and Cabinet regulation No. Nr.488 "Regulation on application of Annual Report Law" requirements.

Profit or Loss Statement is prepared using the turnover method.

The Cash Flow Statement has been presented, by establishing the cash flow from the core activity by the direct method.

As compared to the previous reporting year, the Company's methods used for reporting and valuation have not changed.

Accounting Principles Applied

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

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

Use of Estimates

In the preparation of the Financial Statements, the management is obliged to base its opinion on definite estimates and assumptions, which impact the balances of the Balance Sheet and Profit or Loss Statement 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

All long-term intangible investments and fixed assets were valued based on the purchase or costs value. The balance sheet reflects these investments and fixed assets by deducting the accumulated depreciation and accumulated reduction of the value.

Fixed assets include those interests of the loan received for the acquisition of the fixed assets or construction, which were paid prior to the completion of the object. Further costs of interest are included in the costs of the appropriate reporting period.

Joint-Stock Company not-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 Profit of Loss Statement on next month after acquisition.

Land depreciation is not calculated. Depreciation is calculated at the time of useful life of a particular asset, by using the straight-line method.

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, 2012.

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. In respect of the fact that as the result of depreciation the fixed assets value is decreased, "Revaluation reserve" has been depreciated for each individual fixed asset in accordance with its depreciation rate.

Decrease in "Long-term Revaluation Reserve" is written off incomes.

Expenditures for current repairs and maintenance are incorporated in the Profit or Loss Statement 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 or Loss Statement for the period in which it was created.

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 in the year 2012 is established by a certified real estate appraiser 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.

Profit or loss received from the corrections to the true value of investment properties is reflected in the Profit or Loss Statement.

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

Investments in Subsidiaries and Associated Companies

Investments in subsidiaries (i.e., in companies, in which the Company is holding more than 50% of share capital or which it is controlling in some other way) and associated companies (i.e., companies, in which the Company exercises significant influence but does not hold the controlling interest, in which it has a 20-50% stake of share capital) are entered in accounts by applying the cost method. Investments in subsidiaries and associated companies are not revaluated.

Changes in Accounting Policy

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

Currency Unit and Conversion of Foreign Currency

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

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

	31.12.2011.	31.12.2012.
USD	0.544	0.531
EUR	0.702804	0.702804
PLN	0.16	0.00
RUB	0.00	0.0174

The foreign currency rate fluctuations are reflected in net value.

Cash and Its Equivalents

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

Long-Term and Short-Term Items

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

Capitalization of Loan Payments and Other Payments

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

Accounts Receivable

Accounts receivable are presented in the Balance Sheet in their net value, by deducting specific provisions for bad and doubtful debts from initial value. Specific provisions for bad and doubtful debts are formed in cases when the management considers that recovery of these accounts receivable is unlikely. The Accounts Receivable balances are recorded based on the corresponding entries in the accounting registers.

Bad debt has been written off, when its recovery is considered to be unable.

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).

Research and Development Costs

Research costs are recognized in the Profit or 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.

Administrative costs

Administrative costs according to Company's organization structure include its management departments, which are not directly related to production, but secure production process flow. Additionally to key specialists (Executive Director, Chief Engineer, Chief Power Engineer etc) there are employees of Production Department, Purchasing Department, Financial Department, Planning and Economic Department, Technical Department and other management employees. Administrative costs are costs, which are related to providing such departments with a quality working environment.

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 the appeared overdue period, valuating reasons for payment delays. 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.

Accumulated liabilities

Accumulated liabilities are clearly known payment amounts with the suppliers and enterprises for received during the reporting period goods or services, if on the reporting date the payment documents are not yet received.

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.

Deferred tax assets developed in 2012, which is related to accumulated tax losses.

Considering cautiousness principles, deferred tax asset is not recognized.

Reclassification of Items

The classification of items information and presentation in the financial reports of 2012 was not changed in comparison to the year 2011.

ENCLOSURES TO FINANCIAL POSITION

1. Investment changes

Long-Term Financial Investment (LVL)

Company Name, Address, Registration Number	Business activity	As of 31.12.2012.		
		Ownership in %	Ownership in LVL	The investment carrying value LVL
Related Companies (Subsidiaries)				
LSEZ JSC "Liepājas osta LM" Sliežu iela 7/1, Liepāja; 40003154754	stevedoring services, cargo, ship broker service, ship agency.	95.2	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
OU "LM Ressorss", 12287567 Tallina, Peterburi iela 47-211, Estonia, EE 11415	scrap trading	100	1796	1796
OOO "Torgoviy dom "Liepajskij metalurģ"", 191479696 Minska, Denisovskaja iela 9-24, Baltkrievija, 220006	steel product trading	90	225	225
Total Investments in Related Companies, LVL			9087083	9087083
Associated Companies				
"Elme Messer Metalurģs", LSEZ Ltd. Brīvības iela 93, Liepāja; 40003461570	production and sales of industrial gas	11.3	1023551	1023551
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
Total Investments in Associated Companies, LVL			1593551	1593551

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 31.12.2012.		
		Ownership in %	Ownership in LVL	The investment carrying value LVL
Related Companies (Subsidiaries)				
LSEZ JSC "Liepājas osta LM" Sliežu iela 7/1, Liepāja; 40003154754	stevedoring services, cargo, ship broker service, ship agency.	95.2	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
OU "LM Ressorss", 12287567 Tallina, Peterburi iela 47-211, Estonia, EE 11415	scrap trading	100	2555	2555
OOO "Torgoviy dom "Liepajskij metalurģ"", 191479696 Minska, Denisovskaja iela 9-24, Baltkrievija, 220006	steel product trading	90	320	320
Total Investments in Related Companies, LVL			12929754	12929754
Associated Companies				
"Elme Messer Metalurģs", LSEZ Ltd. Brīvības iela 93, Liepāja; 40003461570	production and sales of industrial gas	11.3	1456382	1456382
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
Total Investments in Associated Companies, LVL			2267419	2267419

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

Long-Term Financial Investments: year 2012 Movement Report (LVL)

	capital of related companies (subsidiaries)	capital of associated companies	Long-Term Loans
Beginning value on 31.12.2011.	9085062	1522959	91204
Invested (loans provided)	2021	70592	91365
Deferred interest payments	0	0	4642
Moved to another item (or written-off)	0	0	-1272
The balance on 31.12.2012.	9087083	1593551	185939

Long-Term Financial Investments: year 2012 Movement Report (EUR)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on 31.12.2011.	12926879	2166975	129772
Invested (loans provided)	2876	100443	130000
Deferred interest payments	0	0	6605
Moved to another item (or written-off)	0	0	-1810
The balance on 31.12.2012.	12929755	2267420	264567

2. Accounts receivable (debtors)

DEBTORS	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Customers and affiliated companies debts	8725509	12415281	4650205	6616646
Incl. Debts of buyers and customers (doubtful debtors debt)	6065465 /1907148/	8630379 /2713627/	4054155 /414559/	5768543 /543593/
Incl. Debts of buyers with factoring activities	2237848	3184171	0	0
Incl. Debts of related companies (subsidiaries) (doubtful debtors debt)	422196 /500762/	600731 /712520/	482266 0	686203 0
Incl. Debts of associated enterprises	0	0	113784	161900
Incl. Debtor debts with deferred payments	0	0	0	0
Other debtors	1201206	1709162	1218983	1734457
Incl. Accrued and unpaid VAT	29758	42342	7445	10593
Incl. Advance payments	1894	2695	1198	1705
Incl. VAT budget overpayments	913808	1300232	1034656	1472183
Incl. Debt for caused damages to the enterprise	90	128	0	0
Incl. Various debtors	155002	220548	141527	201375
Incl. Overpaid salaries	0	0	0	0
Incl. Advance prepayment for services	43584	62014	34157	48601
Incl. Advance prepayment for Corporate income tax	0	0	0	0
Incl. Overpaid taxes	27	38	0	0
Incl. Security deposit	57043	81165	0	0
Future periods payments	70928	100921	56317	80132
Incl. Press expenses	4707	6697	7232	10290
Incl. Miscellaneous	18160	25839	552	785
Incl. Property insurance	48061	68385	48533	69056
Total Debtors:	9997643	14225364	5925505	8431234

3. PROVISIONS

	Provisions for anticipated vacations (4318)		Provisions for doubtful debtors (4319)	
	LVL	EUR	LVL	EUR
On 31.12.2011	831400	1182976	414559	589864
Increase	24600	35003	2114585	3008783
Decrease	0	0	-121234	-172500
Written-off as bad debt	0	0	0	0
On 31.12.2012	856000	1217978	2407910	3426148

*

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

4. Taxes and state social insurance payments in the year 2012

Tax	As of 31.12.2011.		Calculated in the year 2012		Paid in the year 2012		Received from budget in the year 2012		As of 31.12.2012.	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Real estate tax (buildings)	0	0	188968	268877	188968	268877	0	0	0	0
Real estate tax (land)	0	0	99980	142259	99980	142259	0	0	0	0
Residents' Income tax	251782	358254	3290024	4681282	3272911	4656933	0	0	268894	382602
Social Security tax	450304	640725	5802341	8255987	5773446	8214874	0	0	479199	681839
Corporate risk charge	573	815	7096	10097	7077	10070	0	0	592	842
Corporate Income tax	0	0	0	0	0	0	0	0	0	0
Nature resources tax	12826	18250	58916	83830	61664	87740	0	0	10078	14340
	715485	1018043	9447325	13442332	9404046	13380752	0	0	758763	1079623
VAT overpayment (input)	-1034656	-1472183	0	0	11865618	16883253	11986466	17055205	-913808	-1300232

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

5. Accounts payable (creditors)

CREDITORS	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Long-term borrowings from credit institutions	43107608	61336600	48718491	69320168
Long-term obligations	3162760	4500202	0	0
Deferred tax provision	0	0	1295020	1842647
Short-term borrowing from credit institutions (UniCredit)	8614207	12256912	8593278	12227133
Short-term borrowing from credit institutions (credit line)	22408202	31883998	21121368	30052999
Loan interests	522977	744129	55006	78266
Advance payments (residents)	192501	273904	74080	105406
Advance payments (non residents)	23370681	33253483	30871920	43926785
Other borrowing (factoring)	2237848	3184171	33711	47966
(individuals)	225	320	0	0
Debts to suppliers and contractors	46365169	65971692	34604233	49237388
Incl. Materials and gas	18189524	25881361	18062885	25701170
Incl. Services	12197329	17355236	9358970	13316615
Incl. Scrap, various services related to scrap delivery, processing	15490620	22041166	6814490	9696146
Incl. Fixed assets	472247	671947	234529	333705
Incl. Medical department creditors	5112	7274	2667	3795
Incl. Other Creditors	10337	14708	130692	185958
Debts to related enterprises (subsidiaries)	1494798	2126906	223541	318070
Debts to associated enterprises	476964	678659	583401	830105
Accrued liabilities	2369531	3371539	282825	402424
Taxes and social insurance payments	758763	1079622	715484	1018042
Incl. State tax	592	842	572	814
Incl. Residents' Income tax	268894	382602	251782	358254
Incl. Value added tax	0	0	0	0
Incl. Social Security tax	479199	681839	450304	640725
Incl. Nature resources tax	10078	14340	12826	18250
Incl. Real estate (buildings) tax	0	0	0	0
Incl. Real estate (land) tax	0	0	0	0
Other creditors (liabilities)	825629	1174764	791747	1126554
Incl. Payments for salaries	725647	1032501	692540	985396
Incl. Deductions from salaries	36820	52390	31873	45351
Incl. Credit interests to other creditors (the Treasury)	62710	89228	67038	95386
Incl. Settlement parties	453	645	296	421
Total Creditors:	155907863	221836903	147964105	210533954

* Additional information in chapter "Other information"

ENCLOSURES TO PROFIT AND LOSS STATEMENT

6. Net turnover (revenue) by products

Product Description	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Rolled steel	285353625	406021629	203947090	290190565
Billet	18279637	26009580	0	0
Castings	309018	439693	226935	322899
Wire	0	0	781	1111
Crushed slag	25140	35771	648973	923405
Services	224382	319267	315846	449408
Sold steam, gCal	8329	11851	8024	11417
Compressed air	217	309	0	0
Medical department	926415	1318170	882970	1256353
Transportation services	106773	151924	113502	161499
TOTAL	305233536	434308194	206144121	293316659

7. Net turnover by geographic markets

Market	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Latvia	6973291	9922099	5835971	8303839
European Union countries	156931821	223293864	164343524	233839768
Other third countries	141328424	201092231	35964626	51173053
Total	305233536	434308194	206144121	293316659

8. Production costs of sold goods

Cost Description	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Materials	241187874	343179427	168517333	239778563
Salaries and wages	14148317	20131241	9815861	13966712
Social benefits deductions	3354590	4773152	2321698	3303479
Depreciation	7599417	10812996	4139244	5889614
Other costs	26881911	38249513	9974876	14192970
Total	293172109	417146330	194769012	277131337

9. Sales costs

Cost Description	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Packing materials	121438	172791	33537	47719
Transportation costs	3146075	4476461	2829254	4025666
Freight	5136956	7309230	261365	371889
Port handling charges	2256271	3210384	857097	1219539
Advertising and marketing costs	52562	74789	41500	59049
Other sales costs (insurance, storage/warehousing, depreciation, and other)	312001	443937	305516	434710
Costs related to factoring	56564	80483	9678	13771
Costs related to L/C	132293	188236	1719	2446
Total	11214160	15956312	4339666	6174788

10. Administration costs

Costs Description	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Salaries	2341845	3332145	2200176	3130568
Social costs	545731	776505	513889	731198
Communication costs	67265	95709	61470	87464
Office supplies and office maintenance costs	1124615	1600183	944277	1343585
Legal, auditing, translation fees	101883	144967	106517	151560
Presentation costs	207633	295435	311063	442603
Depreciation of fixed assets	220814	314190	227294	323410
Management traveling expenses	105692	150386	90508	128781
Management training	1145	1629	5231	7443
Costs for bank account services	67198	95614	41371	58866
Costs related to stockholders	18382	26156	21225	30200
Total	4802204	6832921	4523021	6435679

Administrative costs according to Company's organization structure include its management departments, which are not directly related to production, but secure production process flow. Additionally to key specialists (Executive Director, Chief Engineer, Chief Power Engineer etc) there are employees of Production Department, Purchasing Department, Financial Department, Planning and Economic Department, Technical Department and other management employees, total 187 employees. Administrative costs are costs, which are related to providing such departments with a quality working environment.

11. Other operating income

Income Description	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Sale of Current assets	2098159	2985412	4434813	6310170
Sale of Fixed assets	7042	10020	924418	1315328
Liquidation of Fixed assets	127231	181033	940697	1338491
Rent of Fixed assets	25271	35957	0	0
Intermediary services	2057027	2926886	0	0
Currency exchange gain	0	0	0	0
Received fines	364509	518650	19862	28261
Written-off revaluation reserve of liquidated fixed assets	84282	119922	3232447	4599358
Income from the investment property revaluation	0	0	102000	145133
Bad debt recovery	121524	172913	132196	188098
Other income from operating activity incl. allowances	1551922 /1463307/	2208186 /2082098/	817441 0	1163114 0
Income due to a decrease in provisions	0	0	0	0
Received discounts	0	0	45767	65121
Total	6436968	9158980	10649641	15153074

12. Other operating costs

Costs Description	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Sales costs of current assets	1585352	2255753	4373728	6223254
Costs related to the sale and liquidation of fixed assets	9084 115811	12925 164784	35574 505839	50617 719744
Costs of intermediary services	2057036	2926899	0	0
Currency exchange loss	145081	206432	752426	1070606
Costs of reserve establishment	24600	35003	10400	14798
Reserve for doubtful debtors	2114584	3008782	156489	222664
Doubtful debts write-off	215	306	324705	462014
Investment property value decrease	123000	175013	0	0
Paid compensations and other benefits	80541	114599	62940	89556
Other costs	268750	382397	951496	1353857
Paid fines	36479	51905	3254	4630
Costs not associated with operating activities	2281694	3246558	1608043	2288039
Costs of infrastructure maintenance	16729	23803	20714	29473
Training costs of the new staff	42835	60949	35481	50485
Costs of previous period	3100	4411	18549	26393
Extraordinary costs (production site close for modernization)	0	0	874506	1244310
Costs of auto maintenance	43436	61804	45970	65409
Total	8948327	12732322	9780114	13915849

13. Interest income

Income	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Income from loans to business persons	4979	7084	1535	2184
Income from bank accounts	915	1302	5513	7844
Income from deposit investments	6493	9239	34900	49658
Total Interest Income	12387	17625	41948	59687

14. Interest payments

Income	As of 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Interests for credit line	1001523	1425039	745486	1060731
Interests for long-term loan	1932543	2749761	0	0
Interests for State Guarantee	458014	651695	0	0
Interests for other loans	2462899	3504390	104738	149029
Total Interest Income	5854979	8330885	850224	1209760

Paid loan interests for UniCredit loan and for State Guarantee were capitalized and included in fixed assets in 2011 and 2012. These interests made 1 360 080 LVL (EUR 1 935 219).

OTHER INFORMATION

Number of Employees

The average number of LM employees in 2011 was 2195.

The average number of LM employees in 2012 was 2325.

Incl. average number of administrative employees: 187

Council and Board Compensation

The compensation to the Members of the Council and Board in 2012 was 255600 LVL (EUR 356101):

Compensation to the certified audit firm

Compensation for:	the year 2012 annual report audit	23 958.00 LVL
	moving property and real estate valuation	19 995.00 LVL
Compensation for:	the year 2011 annual report audit	11 843.02 LVL
	moving property and real estate valuation	27 649.34 LVL

Creditor Obligations

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.

There the State Guarantee Service and Administration Agreement, Real Estate Pledge Agreement, and 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, as well as the real estate located on the revamped meltshop address Brīvības street 94, Liepāja.

Creditors' debt amount, which is extinguished within a current reporting period shall be transferred from long-term creditor obligations to short-term creditor obligations: EUR 12 256 912 (LVL 8 614 207).

The real estate of the Company's located in Brīvības ielā 3/7, Brīvības 93, Brīvības 93^a, Brīvības 95^a, Brīvības 95^b, Brīvības 97^a, Brīvības 99^a, Brīvības 92^d, Brīvības 98, Brīvības 142^a, Brīvības 172, Brīvības 94^c, Brīvības 94^d, Brīvības 95, Brīvības 98^a, Brīvības 98^c, Brīvības 100^a, Brīvības 134, Brīvības 142^b, Meldru 4, Ģen.Baloža 50, O.Kalpaka 5/7/9, Upmalas 9 un Upmalas 11/13 are served as credit line security for the JSC "Citadele banka".

The stock of JSC "Liepājas metalurģs" are stated as security for the loan in JSC "SEB banka".

Other Information

JSC Liepākas Metalurģs cash at the end of period for 31.12.2012 was: 14 441 LVL (EUR 20 548) at the cash counter, 195 486 LVL (EUR 278 152) in current bank accounts, and 175 701 LVL (EUR 250 000) in the deposit account.

Other Provisions

There are provisions made for vacations. The planned provision amount for the year 2013 vacations: 690 323 LVL (EUR982 241) and VSAOI from the employer.

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 2012 this ratio was 0.54 ($1 < K$).

The *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 ($K < 1$).

The JSC "Liepājas Metalurģs" has this ratio at 2.22, which shows that the company used much of borrowed funds.

Liability ratio in the balance sheet. 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 2012 this ratio was 0.69.

The risk management.

The following risks makes the impact on the operating activity of the company:

Currency risk. The Company's financial assets mainly are made of the Buyers' and Clients' debts and consumers' investments in credit institutions, that are denominated in LVL and EUR, as well as the debts to suppliers for the goods and services, that are denominated in EUR and LVL.

Credit risk. The Company has been cooperating with Clients, with whom it has established a successful cooperation relationship and certain credit history, thus according to the Company's Management the Company is not exposed to any significant credit risk. Financial resources are allocated in well-known financial institutions of Latvia.

Interest rate risk. The Company is exposed to interest rate fluctuations risk, for it has loans with the variable EUR rate. Changes in interest rates comply with the general fluctuations in the financial market.

Liquidity risk: ability to settle accounts with the partners. The Company has been analyzing the terms of assets and liabilities, to be convinced that it will be able to settle accounts, uses the credit line, provides for other activities etc.