

**JOINT STOCK COMPANY**  
**‘KURZEMES ATSLEGA 1’**

**Finance Statament For the period  
ended 30 September 2005.**

**UNAUDITED**

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## 1.Information on enterprise.

State registration Nr. and date	000304400 February 1996. Dropped from Register of Companies 2004.11.06. "KURZEMES ATSLEGA 1" JSC, had been enrolled in Commercial Register June 1, 2004 with identification number Nr. 40003044007
Registration number of VAT	LV 40003044007, January 22, 1997
The name of enterprise and address	Joint stock company "KURZEMES ATSLEGA 1" Kalvenes street -27, Aizpute LV 3456, Latvia
Financial period	January 1, 2005– September 30, 2005
Members of Supervisory Council	<b>Valdis Bikis</b> – "KURZEMES ATSLEGA 1", JSC, Technical Director – Chairman of Supervisory Council <b>Raitis Brikmanis</b> – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Engineer - Electrician. <b>Juris Grasmanis</b> – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Engineer - Mechanic. <b>Andris Taurins</b> – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic <b>Ivars Lacis</b> – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller
Members of Board	<b>Janis Plume</b> – Member Board, "Kurzemes Atslega 1", JSC, Production Manager <b>Inara Burve</b> – Member of Board, "Kurzemes Atslega 1", JSC, Chief Accountant.
Chairman of Board	<b>Aivars Puisitis</b>
Auditor	Certified Auditor <b>Aivars Rutkis</b> , Certificate Nr. 18

## **2. Report of Direction**

The purview of “KURZEMES ATSLEGA 1” during the first 9 months 2005 in comparison with previous periods was not changed, there were still produced articles of locks and ironmongery, fittings for furniture, forged products for gates and fences, technological equipment and etc.

The net turnover in comparison with the first 9 months 2004 has decreased for LVL 48174, however in comparison with the 3 quarter 2004, the amount of sales has increased for LVL 43827 or for 10.6%.

In first quarter 2005 there were sold products for LVL 353468, in second quarter for LVL 366926, in third quarter for LVL 455922 int. al. the sales of products abroad in first quarter 2005 was LVL 168230, in second quarter was LVL 170493, in third quarter LVL 202074. Wherewithal we are planning, that net turnover in 2005 will be in the groove of year 2004 or will slightly exceed it.

The after-tax income of first 9 months 2005 is in the groove of previous year yet the net turnover is for 3.9% less. It is connected by that industrial and other expenses are strictly supervised. However on the following periods the further decrease in production costs will be impossible. The “KURZEMES ATSLEGA 1” also as other enterprises of Latvia concerns problems of the qualified labour. The average earnings during the first 9 months 2005 was LVL 175.51 (in third quarter 2005 -LVL 182.29). The average number of employees in first 9 months 2005 was 203 (the average number of employees in year 2004 was 229 and the average earnings was LVL 172.02). If the market of products, that was in third quarter this year, will be kept during year 2006, there will be necessary to increase the amount of employees for 10%, to provide the enterprise with labour force, as well as to raise the earnings. Wherewith there will be obligated to up the prices.

In the third quarter 2005 the work on modernization of electroplating shop is continuing. Using the own finances and loan, in year 2005 there will be put into operation capital assets for nearly LVL 100 thousands.

A/S "KURZEMES ATSLĒGA1"  
 reg.No.40003044007  
 Taxpayer No.LV40003044007  
 Address : Kalvenes str.27,Aizpute

### BALANCE SHEETS

currency exchange rate on 30.09.2004 LVL/EUR 0.671

currency exchange rate on 30.09.2005 LVL/EUR 0.7028204

ASSETS 1	Row code	30.09.2005 LVL	30.09.2005 EUR	30.09.2004 LVL	30.09.2004 EUR
<b>1.LONG TERM INVESTMENT</b>					
<b>I.Intangible fixed assets</b>					
<b>II.Fixed assets</b>					
1.Land, building.	70	400225	569469	405166	603824
2.Equipment and machinery	90	120637	171651	144762	215741
3.Other fixed assets	100	26604	37854	17097	25480
4.Fixed assets developmant costs	110	186262	265027	144602	215502
5.Prepayment for fixed assets	120	1686	2399	950	1416
<b>II Total fixsed assets</b>	<b>130</b>	<b>735414</b>	<b>1046400</b>	<b>712577</b>	<b>1061963</b>
<b>III.Long term finansial investment</b>					
1.Other investment and secutities	180	691	983	692	1031
2.Other loans	190			101	151
<b>III.Total Long term finansial investment</b>	<b>220</b>	<b>691</b>	<b>983</b>	<b>793</b>	<b>1182</b>
<b>1.Total LONG TERM INVESTMENT</b>	<b>230</b>	<b>736105</b>	<b>1047383</b>	<b>713370</b>	<b>1063145</b>
<b>2.CURRENT ASSETS</b>					
<b>1.Inventories</b>					
1.Raw materials	240	274352	390368	323198	481666
2.Work in progress	250	142215	202354	111108	165586
3.Finished goods and goods for sale	260	85645	121862	122080	181937
5.Advance payment for goods	280	20035	28507	14420	21490
<b>I.Total inventories</b>	<b>300</b>	<b>522247</b>	<b>743091</b>	<b>570806</b>	<b>850679</b>
<b>II.Debtors</b>					
1.Trade debtors	310	137250	195289	122130	182012
4.Other debtors	340	611	869	3702	5517
7.Deferred expenses	370	318	452		
<b>II.Total debtors</b>	<b>380</b>	<b>138179</b>	<b>196610</b>	<b>125832</b>	<b>187529</b>
<b>III.Securities and capital participation</b>					
<b>IV . Cash</b>	<b>430</b>	<b>8924</b>	<b>12698</b>	<b>26134</b>	<b>38948</b>
<b>2.Total current assets</b>	<b>440</b>	<b>669350</b>	<b>952399</b>	<b>722772</b>	<b>1077156</b>
<b>Total assets</b>	<b>450</b>	<b>1405455</b>	<b>1999782</b>	<b>1436142</b>	<b>2140301</b>

LIABILITIES 1	Row code	30.09.2005 LVL	30.09.2005 EUR	30.09.2004 LVL	30.09.2004 EUR
<b>1.CAPITAL</b>					
1.Share capital	460	918144	1306402	918144	1368322
3.Revaluation reserve	480	-94	-134	-94	-140
4.Reserves					
a)legal reserves	490				
<b>4.Total reserves</b>	<b>530</b>				
5.Retained profit					
a) previous years retained profit	540	312429	444546	300962	448528
current year profit	550	12267	17454	12374	18441
<b>1Total Capital and reserves</b>	<b>560</b>	<b>1242746</b>	<b>1768268</b>	<b>1231386</b>	<b>1835151</b>
<b>2.PROVISIONS</b>					
<b>3.CREDITORS</b>					
<b>1.Long term creditors</b>					
Other loans	640	30000	42686	16775	25000
<b>1.Total long term creditors</b>	<b>750</b>	<b>40375</b>	<b>57449</b>		
<b>2.Short-term creditors</b>		<b>70375</b>	<b>100135</b>	<b>16775</b>	<b>25000</b>
3.Bank loan	780				
4.Other loans	790			474	706
5.Advances received from customers	800	524	746		
6.Trade creditors	810	3895	5542	4085	6088
8.Amounts payable to associated companies	830	44715	63623	90592	135011
10.Taxes and social security payments	850			58918	87806
11.Other creditors	860	23734	33770	16941	25247
12.Deferred income	870	19466	27698	16971	25292
<b>2. Total short-term creditors</b>	<b>900</b>	<b>92334</b>	<b>131379</b>	<b>187981</b>	<b>280150</b>
<b>Total creditors</b>	<b>910</b>	<b>162709</b>	<b>231514</b>	<b>204756</b>	<b>305150</b>
<b>Total liabilities</b>	<b>920</b>	<b>1405455</b>	<b>1999782</b>	<b>1436142</b>	<b>2140301</b>

## The principles of accounting and methods of valuation

The annual report has been prepared in accordance with laws of Republic of Latvia "On Bookkeeping" and "On Annual Reports of Enterprises", Latvian standards of Bookkeeping № 1 and № 2. The Income Statement has been prepared using scheme of turnover costs. The Cash Flow report has been prepared using indirect method.

### Appendices to balance sheet .

#### 1. The rest of securities.

On the september 30 ,2005 to "Kurzemes atslēga1" JSC belonged 601 equities of "A/S NORD /LB Latvija" at face value 0.01 LVL. The purchase price of these equities was 691.15 LVL

#### 2. The distribution of trade debtors by countries

Valstis	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Latvia	68438	97378	40746	60724
Lituania	28074	39946	36003	53656
Estonia	6505	9256	3959	5900
Russia	1967	2799	0	0
Germany	5972	8497	0	0
Ukraina	26294	37413	41422	61732
Total	137250	195289	122130	182012

#### 3. Means

Account	Currency	Remainder	Rate of exchange	LVL	EUR
2611	LVL	88.47	1	89	126
2617	LVL	58.41	1	58	82
2621	LVL	2024.11	1	2024	2880
2624	LVL	6154.74	1	6155	8758
26251	USD	50.93	0.583	30	43
26271	EUR	808.66	0.702804	568	809
Total				8924	12698

#### 4..Joint –stock or share capital.

The share capital consists of 918144 equities with nominal value 1.00 LVL . 46.07% of share capital belongs to A/S "Kurzemes atslēga 1", reg.40003253124.

**5. Other borrowings ( long term creditors)**

	Currency of loan	Exchange rate	EUR	LVL
Nordic Environment Finance Corporacion (as at september 30, 2005)	EUR	0.702804	42686	30000
Nordic Environment Finance Corporacion (as at september 30, 2004)	EUR	0.671	25000	16775

**Short-term creditors****6.**

	Currency of loan	Exchangr rate	EUR	LVL
NORD/LB Latvija (as at September 30, 2005)	LVL	524	0.702804	746

**7. Other borrowings**

	Currency of loan	Exchangr rate	EUR	LVL
Nordic Environment Finance Corporacion(as at September 30, 2005)	EUR	0.702804	0	0
Nordic Environment Finance Corporacion (as at September 30, 2004)	EUR	0.671	706	474

**9. Taxes and Obligatory payments of the state social insurance**

Kind of taxes	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Income tax of inhabitants	6120	8708	6168	9192
Obligatory payments of the state social insurance	10274	14618	10773	16055
Tax to natural resources				
Value added tax	7340	10444		
Obligarory risk duty				
Total	23734	33770	16941	25247



**10. The rest of creditors.**

Kind of creditors	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Wages for december	16590	23605	13295	19814
Deduction from wages	110	157	158	235
Dividend	1308	1861	2618	3902
Other creditors	1458	2075	900	1341
Total	19466	27698	16971	25292

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### Profit and loss account

30.09. 2005.

N.	Item	line No	30.09.2005	30.09.2005	30.09.2004	30.09.2004
			LVL	EUR	LVL	EUR
1	Net sales	10	1191276	1695033	1239450	1847169
2	Cost of sales	20	-1053980	-1499678	-1099172	-1638110
3	Gross profit	30	137296	195355	140278	209059
4	Distribution expenses	40	-7045	-10024	-634	-945
5	Administration expenses	50	-106587	-151660	-112607	-167820
6	Other operating income	60	23435	33345	16156	24078
7	Other operating expenses	70	-26591	-37836	-21947	-32708
8	Income from participation in subsidiary capital	80				
10	Income from other interest and similar incomes	100	13	18	82	122
11	Long term investments and					
	short-terms bond write-off	110				
12	Interest paid and similar expense	120	-1219	-1734	-436	-650
13	Operating profit	130	19302	27464	20892	31136
14	Extraordinary income	140				
15	Extraordinary expenses	150				
16	Profit before taxes	160	19302	27464	20892	31136
16	Corporate income tax	170	-2821	-4014	-3977	-5927
17	Other taxes	180	-4214	-5996	-4541	-6768
18	Net profit for the year	190	12267	17454	12374	18441

30.09.2005 1EUR=0.702804 LVL

30.09.2004 1EUR=0.671LVL

EPS 2005.30.09. 0.013

In profit and loss account there were made changes – one part of incomes, that until now were shown in item “The rest of incomes from economic activity” – Incomes from public facilities, incomes from heating and supply of hot water for dwelling houses and health centre, was transferred to line “Net sales”, because the expenses for rendering of these services does no calculated separately, but are included in production costs of sold products.

For comparability with previous year, there are made corresponding corrections also in profit and loss calculations of previous year.

### **Appendices for profit and loss account**

#### **1. Net sales**

<b>Modus operandi</b>	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Incomings from production of locks and ironmongery	1158289	1648096	1212082	1806381
Incomings from sales of goods in shop	18915	26914	15241	22714
Incomings from rendering of services	5633	8015	1317	1963
Incomings from rendering of public facilities	8439	12008	10810	16111
Total:	1191276	1695033	1239450	1847169

#### Distribution of net sales by geographical markets

<b>Country</b>	30.09.05.. LVL	30.09.05. EUR	%	30.09.04.. LVL	30.09.04. EUR	%
<b>Latvia</b>	650632	925767	54.6	682521	1017170	55.1
<b>Lithuania</b>	319372	454425	26.8	288871	430508	23.3
<b>Estonia</b>	82974	118061	7.0	63337	94392	5.1
<b>Russia</b>	47545	67650	4.0	36437	54303	2.9
<b>Ukraine</b>	60659	86310	5.1	155011	231015	12.5
<b>Germany</b>	30094	42820	2.5	13273	19781	1.1
<b>Total</b>	1191276	1695033	100	1239450	1847169	100

## 2. Production costs of sales.

<b>The main elements of expenses</b>	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Material costs	598059	850961	594714	886310
Wages	248172	353117	271791	405053
Obligatory payments of the state social insurance	57594	81949	62752	93520
Electrical energy	34766	49468	39562	58960
Costs of depreciation of fixed	50883	72400	55136	82170
The rest of expenses	53281	75812	74238	110638
<b>Expenses in total</b>	<b>1042755</b>	<b>1483707</b>	<b>1098193</b>	<b>1636651</b>
Correction of expenses				
Changes of remains of unfinished production	2626	3736	-10175	-15164
Changes of remains of self-made punches, molds and materials	-14332	-20393	-3822	-5696
Changes of remains of complete product	64806	92211	53313	79453
Changes of remains self-made fixed assets	-41875	-59583	-38337	-57134
<b>Total</b>	<b>1053980</b>	<b>1499678</b>	<b>1099172</b>	<b>1638110</b>

## 3. Administration expenses.

<b>The main elements of expenses</b>	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Wages	78631	111882	83534	124492
Social expenses	18734	26656	19958	29744
The rest of expenses	9222	13122	9115	13584
<b>Total</b>	<b>106587</b>	<b>151660</b>	<b>112607</b>	<b>167820</b>

## 4. The rest of incomes for economic activity

Sort of revenue	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Sales of current assets	19737	28084	12360	18421
Incomes from exchange rate fluctuations	1408	2003	714	1064
The rest of incomes	2290	3258	3082	4593
<b>Total</b>	<b>23435</b>	<b>33345</b>	<b>16156</b>	<b>24078</b>

**5. The rest of expenses for economic activity of enterprise**

Heads of expenditure	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
First cost of sold current assets	17487	24882	11406	16998
Expenses for social sphere	1691	2406	2394	3568
Expenses, unrelated with economic activity, donations	7413	10548	8147	12142
Heads of expenditure	26591	37836	21947	32708

**6. The rest of interest income.**

Sort of income	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Interest profit for balance of account etc.	13	18	82	122
Total	13	18	82	122

**7. Interest payments.**

Heads of expenditure	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Penalty, paid up	0	0	10	15
Interest payable for credit	1219	1734	426	635
Total	1219	1734	436	650

**8. The rest of taxes**

Kinds of taxes	30.09.05 LVL	30.09.05 EUR	30.09.04. LVL	30.09.04. EUR
Real estate tax	4214	5996	4541	6768

A/S "KURZEMES ATSLEGA1"  
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CASH FLOW STATAMENT 30.09. 2005

	Pielikumi	30.09.05. LVL	30.09.05. EUR	30.09.04. LVL	30.09.04. EUR
1.	2.	3.	4	5	6
<b>I. Busines activities cash flow</b>					
<b>1. Profit or loss before tax</b>		19302	27464	20892	31136
Corrections		52089	74116	55490	82698
a) wear of fixed assets		50883	72400	55136	82170
g) interest income		-13	-18	-82	-122
i) interest expense		1219	1734	436	650
<b>2. Profit or loss before current assets andshort-term liabilities</b>					
<b>    residue correction influence</b>		71391	101580	76382	113834
Corrections		-3643	-5184	2709	4037
a) debtors increase/decrease		-41325	-58800	-28196	-42021
b) Stock residue increase/decrease		69168	98417	-23845	35537
c)To suppliers , contractors and other creditors payable debt residue increase/decrease.		-31486	-44801	54750	81595
<b>3.Basic activity cash flow</b>		67748	96396	79091	117871
4.Interest expense		-1219	-1734	-436	-650
5. Income tax paid		-2821	-4014	-3977	-5927
6. Real estate tax paid		-4214	-5996	-4541	-6768
<b>Basic activity net cash flow</b>		<b>59494</b>	<b>84652</b>	<b>70137</b>	<b>104526</b>
<b>II. Investments action cash flow</b>					
1.	2.	3.	4	5	6
3. Fixed assets and intangible investmemts purchase		-62210	-88517	-60604	-90319
7. Interest income		13	18	41	61
<b>9. Investments activity net cash flow</b>		<b>-62197</b>	<b>-88498</b>	<b>-60563</b>	<b>-90258</b>
					0
<b>III. Financing activity cash flow</b>					
1.	2.	3.	4	5	6
2. Loans received from credit and other institucions		26425	37599		
4. Loans repaid		-16505	-23484	-12901	-19227
5.Dividends		-3285	-4674	-6564	-9782
<b>7. Finansing activity net cash flow</b>		<b>6635</b>	<b>9441</b>	<b>-19465</b>	<b>-29009</b>
<b>V. Financial period net cash flow</b>		<b>3932</b>	<b>5595</b>	<b>-9891</b>	<b>-14741</b>
<b>VI. Cash and its equivalents residue in the beginning of finacial period.</b>		4992	7103	36025	53689
<b>VII. Cash and its equivalents residue in the end of finacial period.</b>		8924	12698	26134	38948

A/S "KURZEMES ATSLĒGA1"  
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STATEMENT OF CHANGES IN EQUITY  
 30.09. 2005

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
<b>AS of 31 december 2003 LVL</b>	918144	-94	34237	275906	1228193
Transfer to reserves			-34237	34237	0
dividend paid				-9182	-9182
Current year profit				16058	16058
<b>As of 31 december 2004 LVL</b>	918144	-94	0	317020	1235070
<b>As of 31 december 2004 EUR</b>	1306401	-134	0	451079	1757346
Transfer to reserves					
dividend paid				-4591	-4591
Current year profit				12267	12267
<b>As of 30 September 2005 LVL</b>	918144	-94	0	324696	1242746
<b>As of 30 September 2005 EUR</b>	1306401	-134	0	462001	1768268

Chairmen of the Board

Aivars Puisitis

Member of the Board

Jānis Plūme

Ināra Burve