

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

Consolidated
Annual Report
(Audited)

For the year 2012
(01.01.2012. - 31.12.2012.)

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Latvia

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 10 to 30 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2012 and the statements of comprehensive income, 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 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 2012, and of its financial performance and its cash flows for the year 2012 in accordance with International Financial Reporting Standards as adopted by the European Union.

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 JSC "Liepājas Metalurģs" 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 indicate the existence of a material uncertainty that may cast significant doubt on JSC "Liepājas Metalurģs" as the main shareholders' 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 7 to 8 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 consolidated financial statements for 2012.

AS "BDO"
Company of Certified Auditors
Licence No 112

Dainis Tunsts
International Liaison Partner

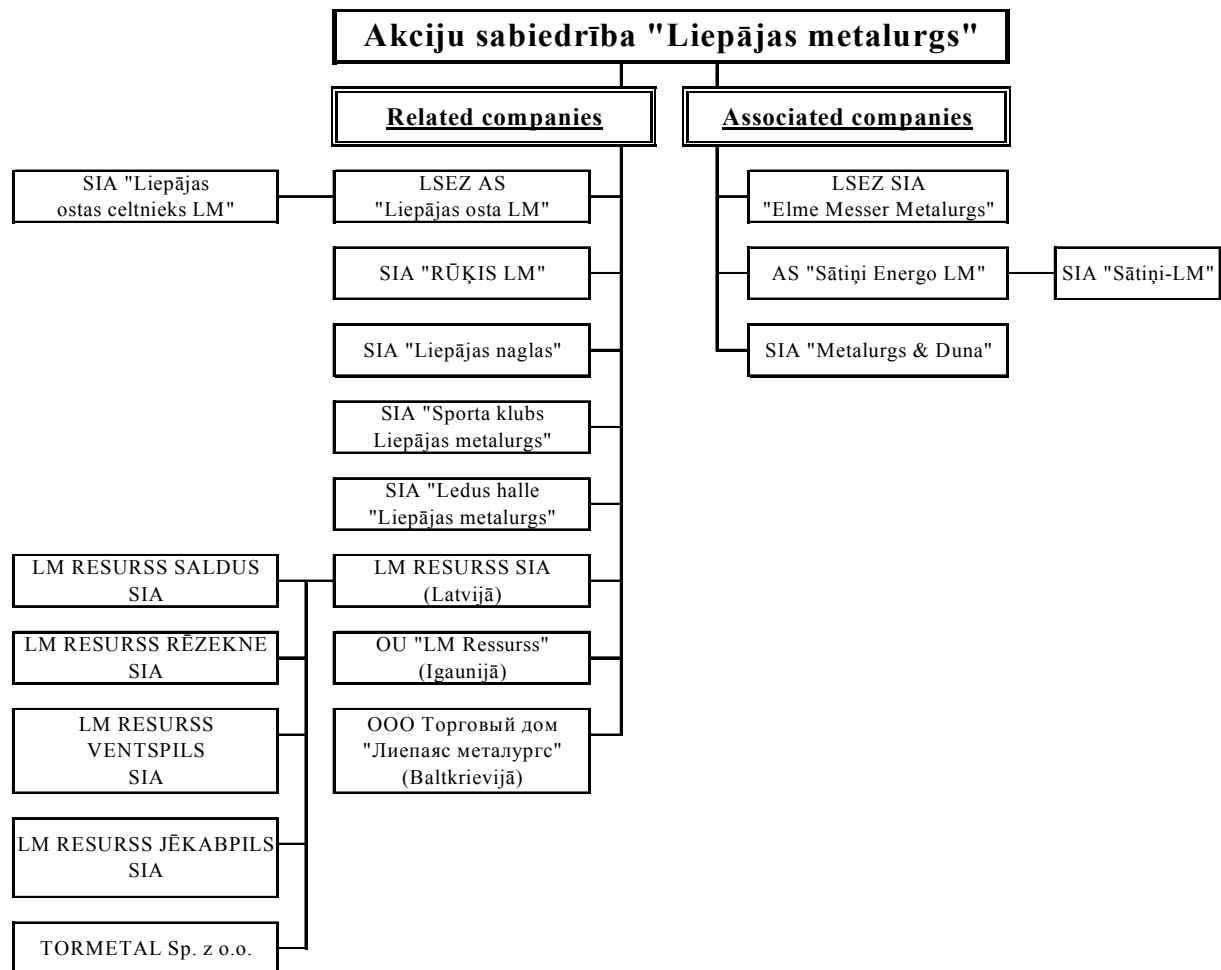
Riga, Latvia,
30 April 2013




Aivars Putniņš
Certified auditor of Latvia
Certificate No. 123

INFORMATION ON THE 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 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 Vīlnītis
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 METALURGS" MANAGEMENT STATEMENT REGARDING THE CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2012.

The Company's net turnover in the year 2012 amounted to LVL 321.0 Mio. (EUR 456.8 Mio.), while the total economic activity marked a loss of LVL 7.3 Mio. (EUR 10.4 Mio.).

Growth of net turnover is related to an increase of production and sales of reinforcement bars in comparison with the year 2011.

During the reporting period the LSEZ JSC Liepājas osta LM has handled 2.7 Mio tonnes of cargo, which showed an increase by 58% compared to the year 2011.

The company LM RESURSS SIA (LTD), established in 2012, was created with intent to improve trade, storage and processing of ferrous scrap. To promote its activities, LM RESURSS SIA (LTD) registered 5 subsidiary companies.

The most important projects during the reporting period include:

- Development of steel production and establishment of infrastructure;
- Completion of revamping of Berth (Quay) No. 50 of the LSEZ JSC Liepājas osta LM with the total investments amounting to LVL 1.6 Mio. (EUR 2.3 Mio.)
- Purchase of a new portal crane;
- Commissioning of the second round of grain terminal in collaboration with DAN STORE LTD;
- To ensure stability, Rukis LM LTD and Liepājas naglas LTD paid a special attention to the attraction of new customers, cost optimization and exploration of new markets.

Development and plans:

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.

- new cargo types development;
- Continuation of organization of training and competition process for kids, youth and professional football and ice-hockey teams.

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 Consolidated 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.
- 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 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, 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 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

On behalf of the JSC "Liepājas metalurģs"

Chairman of the Board _____ V.Terentjevs

STATEMENTS OF FINANCIAL POSITION (Consolidated) for the year 2012

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 assets		56973	81065	27243	38763
2. Concessions, patents, licenses, trademarks and similar rights		0	0	6115	8701
3. Advance payments for intangible investments		0	0	0	0
4. Goodwill		0	0	0	0
I.TOTAL:		56973	81065	33358	47464
II. Fixed assets					
1. Land, buildings and constructions, and long-term sites		68243115	97101205	52143877	74194053
2. Long-term investments in rented fixed assets		4701728	6689956	4679167	6657855
3. Technological equipment and machinery		96515540	137329241	29141677	41464871
4. Other fixed assets and inventory		1573708	2239185	1876213	2669611
5. Fixed assets formation and costs of unfinished construction sites		2053720	2922180	75419820	107312736
6. Advance payments for fixed assets		8827	12560	1051865	1496669
II. TOTAL:		173096638	246294327	164312619	233795794
III. Investment properties					
Investment properties		1950529	2775353	5230805	7442765
IV. Long-term financial investments					
1. Share in the capital of related companies (subsidiaries)		61413	87383	0	0
2. Share in the capital of associated companies		1473551	2096674	1402959	1996231
3. Loans to the related companies (subsidiaries)		0	0	0	0
4. Loans to the associated companies		85168	121183	81500	115964
5. Other loans		734819	1045553	668817	951641
IV. TOTAL:		2354951	3350793	2153276	3063836
Section 1 total amount:		177459091	252501538	171730058	244349859
2. CURRENT ASSETS					
I. Stock (Inventories)					
1. Raw materials, basic and auxiliary materials		19992082	28446170	10009260	14241894
2. Unfinished products, Work in Process		1389428	1976978	2457425	3496601
3. Finished products and goods for sales		26944334	38338333	54034888	76884719
4. Incompleted orders		195878	278709	166202	236484
5. Advance payments for goods		1232728	1754014	749961	1067098
6. Labour animals and productive animals		110	157	110	157
I. TOTAL:		49754560	70794361	67417846	95926953
II. Accounts receivable (Debtors)					
1. Trade accounts receivable		9970895	14187305	5416760	7707355
2. Debt of related enterprises		0	0	0	0
3. Debt of associated enterprises		0	0	113784	161900
4. Other debtors (accounts receivable)		1284606	1827830	1473833	2097075
5. Short-term loans to co-owners and management of the company		9230	13133	7488	10654
6. Prepaid expenses		86071	122468	85648	121866
7. Accrued income		30430	43298	24157	34372
II.TOTAL:	1	11381232	16194034	7121670	10133223
III. Short-term financial investments		0	0	0	0
III. TOTAL:		0	0	0	0
IV. Cash		1158033	1647733	1747148	2485968
IV. TOTAL:		1158033	1647733	1747148	2485968
Section 2 total amount		62293825	88636128	76286664	108546144
TOTAL ASSETS		239752916	341137666	248016722	352896002

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		31283734	44512743	34403622	48951944
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		-15437730	-21965911	-19267697	-27415463
4. Retained earnings: b) undistributed profit of the reporting year		-10355331	-14734309	3829967	5449552
4. Retained earnings: c) Minority shareholders		0	0	0	0
4. Retained earnings: b+c undistributed profit of the reporting year		-10355331	-14734309	3829967	5449552
Section 1 total amount:		66996535	95327481	80471754	114500990
Minority shareholders		577798	822132	459618	653977
2. PROVISIONS					
1. Other provisions		994242	1414679	931761	1325776
Section 2 total amount:		994242	1414679	931761	1325776
3. LIABILITIES (Accounts payable)					
I. Long-term Creditors (Accounts payable)					
1. Loans from credit institutions		45400337	64598860	51149544	72779244
2. Other loans		2629647	3741651	3046992	4335479
3. Other liabilities		18653	26541	15146	21551
4. Debts to suppliers		3162760	4500202	0	0
5. Provisions for anticipated taxes		322695	459154	1625771	2313264
6. Deferred tax from revaluation reserve		5520659	7855190	6071227	8638578
I. TOTAL:		57054751	81181597	61908680	88088116
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		32982629	46930053	31378685	44647846
2. Other loans		3484562	4958085	901231	1282336
3. Advance payments received from customers		24429081	34759451	33301295	47383474
4. Suppliers and contractors trade account payable		48080668	68412627	35838782	50993993
5. Accrued liabilities (payable bills of exchange)		2459424	3499445	369660	525979
6. Payable (debt) to related companies		0	0	0	0
7. Payable (debt) to associated companies		453935	645891	559907	796676
8. Taxes and state social insurance payments	2	1101443	1567212	984323	1400565
9. Other liabilities		1137848	1619012	911026	1296273
10. Deferred income		0	0	0	0
II. TOTAL:		114129590	162391776	104244909	148327142
Section 3 total amount:	3	171184341	243573373	166153589	236415258
TOTAL LIABILITIES AND EQUITY		239752916	341137666	248016722	352896002

On behalf of the JSC "Liepājas metalurģs"

Chairman of the Board _____ V.Terentjevs

STATEMENTS OF COMPREHENSIVE INCOME (Consolidated) for the year 2012

No.	Parameter designation	Enclosure Number	As of 31.12.2012.		As of 31.12.2011.	
			LVL	EUR	LVL	EUR
1	Net turnover	4,5	321016338	456765098	221651078	315381071
2	Production costs of goods sold	6	-308550601	-439027952	-205624941	-292577932
3	Gross profit or loss (from turnover)		12465737	17737146	16026137	22803139
4	Sales costs	7	-9867149	-14039688	-9154562	-13025768
5	Administration costs	8	-6713031	-9551783	-5823907	-8286673
6	Other operating income	9	8207967	11678885	11801156	16791532
7	Other operating costs	10	-9256955	-13171460	-8980336	-12777867
8	Interest income and other similar income		11151	15866	41380	58878
9	Income from the capitals of related and associated companies		0	0	1270388	1807599
10	Interest payments and similar expenses		-6109916	-8693627	-1111157	-1581034
11	Profit or loss before extraordinary items and taxes		-11262196	-16024661	4069099	5789806
12	Income tax for the reporting period		-27956	-39778	-33064	-47046
13	Deferred tax		1303077	1854112	161238	229421
14	Other taxes		-316880	-450880	-311221	-442828
15	Profit or loss after taxes for the reporting period		-10303955	-14661207	3886052	5529354
16	Minority shareholders shares		-51376	-73101	-56085	-79802
17	Profit or loss of the report period		-10355331	-14734309	3829967	5449552
18	Changes in revaluation reserve		-3670456	-5222588	-5513804	-7845436
19	Comprehensive loss of the reporting period		-14025787	-19956897	-1683837	-2395884

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

On behalf of the JSC "Liepājas Metalurģs"

Chairman of the Board _____ V.Terentjevs

CASH FLOW STATEMENT (by direct method) (Consolidated) 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	328087758	466826822	218962767	311555949
Cash received from other business activities	95643	136088	1224182	1741854
VAT overpayment received	3004394	4274868	2417255	3439444
Cash paid to suppliers and employees	-312692879	-444921883	-216946651	-308687274
Cash received from the core business activity	18494916	26315895	5657553	8049973
Paid interests from the core business activity	-3184376	-4530959	-1089531	-1550263
Received interest	7408	10541	40416	57507
Corporate income tax payments	-22733	-32346	-89263	-127010
Other tax payments	-2517420	-3581966	-2621954	-3730704
Other payments	-22514	-32035	0	0
Net cash flow from the core business activity	12755281	18149130	1897221	2699502
CASH FLOW FROM INVESTMENT ACTIVITIES				
Repayment of long-term investments	0	0	3744	5327
Acquisition of fixed assets	-5195403	-7392392	-10796623	-15362211
Sale of fixed assets and intangible assets	28243	40186	65697	93478
Investments in associated and related companies	-132005	-187826	-536672	-763615
Net cash flow from investment operations	-5299165	-7540032	-11263854	-16027020
CASH FLOW FROM FINANCING ACTIVITIES				
Short-term borrowings, net value (credit line) net worth	2445945	3480266	8320625	11839183
Long-term borrowings	506020	720002	1083476	1541647
Paid liabilities for financial leasing	-1170563	-1665561	-1235448	-1757884
Loans to associated companies	0	0	-81500	-115964
Loan repayments	-1062464	-1511750	0	0
Repayment of loans of associated and related companies	0	0	-300370	-427388
Other long-term loans	-562102	-799799	-3000	-4269
Long-term loan repayments	-8436310	-12003788	-330513	-470278
Costs not associated with operating activities	-78528	-111735	-85529	-121697
Other funding and grants received	507651	722322	319768	454989
Net cash flow from financing activities	-7850351	-11170043	7687509	10938340
Result of foreign currency exchange rate fluctuations	-194880	-277289	-545617	-776343
Net growth of cash and its equivalents	-589115	-838235	-2224741	-3165521
Cash and its equivalents at the beginning of accounting period	1747148	2485968	3971889	5651489
Cash and its equivalents at the end of accounting period	1158033	1647733	1747148	2485968

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 01.01.2011.	16981033	45988653	0	44524829	-6977235	-12290462	88226818
Profit in reserves					6977235	-6977235	0
Undistributed profit of the reporting period					3829967		3829967
Minority shareholders							0
Revaluation reserve in deferred tax		-6071227					-6071227
Increase of revaluation reserve							0
Written-off revaluation reserve		-5513804					-5513804
As of 31.12.2011.	16981033	34403622	0	44524829	3829967	-19267697	80471754
Profit in reserves					-3829967	3829967	0
Undistributed profit of the review period					-10355331		-10355331
Minority shareholders							0
Revaluation reserve in deferred tax		550568					550568
Increase of revaluation reserve							0
Written-off revaluation reserve		-3670456					-3670456
As of 31.12.2012.	16981033	31283734	0	44524829	-10355331	-15437730	66996535

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	65435958	0	63353124	-9927711	-17487752	125535452
Profit in reserves					9927711	-9927711	0
Reserves distribution							0
Undistributed profit of the reporting period					5449552		5449552
Minority shareholders							0
Revaluation reserve in deferred tax		-8638578					-8638577.8
Increase of revaluation reserve							0
Written-off revaluation reserve		-7845436					-7845436
As of 31.12.2011.	24161833.2	48951944	0	63353124	5449552	-27415463	114500990
Profit in reserves					-5449552	5449552	0
Undistributed profit of the review period					-14734309		-14734309
Minority shareholders							0
Revaluation reserve in deferred tax		783388					783387.687
Increase of revaluation reserve							0
Written-off revaluation reserve		-5222588					-5222588
As of 31.12.2012.	24161833.2	44512743	0	63353124	-14734309	-21965911	95327481

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.	352334	57690230	7240857	53048015	5425526	75616463	1109392	200482817
Acquired and turned in to usage in 2012	38826	16233648	638392	74331429	607675	17600093	311547	109761610
Moved to accounts	0	601444	-282755	282755	0	-91162836	-511820	-91073212
Moved from accounts	0	3146000	0	0	0	0	0	3146000
Written-off	548	-3043205	0	-762822	-292280	0	-900292	-4998051
on 31.12.2012.	391708	74628117	7596494	126899377	5740921	2053720	8827	217319164
DEPRECIATION								
on 31.12.2011.	314471	5546354	2561690	23910481	3565497	0	0	35898493
Calculated depreciation	20446	1060206	389597	6972651	848540	0	0	9291440
Transferred	0	0	-56521	56521	0	0	0	0
Moved over written-off depreciation	-182	-221558	0	-555816	-246824	0	0	-1024380
on 31.12.2012.	334735	6385002	2894766	30383837	4167213	0	0	44165553
Balance Value on 31.12.2011.	37863	52143876	4679167	29137534	1860029	75616463	1109392	164584324
Balance Value on 31.12.2012.	56973	68243115	4701728	96515540	1573708	2053720	8827	173153611

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.	501326	82085802	10302811	75480525	7719828	107592534	1578523	285261349
Acquired and turned in to usage in 2012	55244	23098400	908350	105764095	864644	25042676	443291	156176701
Moved to accounts	0	855778	-402324	402324	0	-129713030	-728254	-129585506
Moved from accounts	0	4476355	0	0	0	0	0	4476355
Written-off	780	-4330091	0	-1085398	-415877	0	-1281000	-7111586
on 31.12.2012.	557350	106186244	10808837	180561546	8168595	2922180	12560	309217312
DEPRECIATION								
on 31.12.2011.	447452	7891751	3644956	34021549	5073245	0	0	51078954
Calculated depreciation	29092	1508537	554347	9921189	1207364	0	0	13220528
Transferred	0	0	-80422	80422	0	0	0	0
Moved over written-off depreciation	-259	-315249	0	-790855	-351199	0	0	-1457561
on 31.12.2012.	476285	9085039	4118881	43232305	5929410	0	0	62841920
Balance Value on 31.12.2011.	53874	74194050	6657855	41458977	2646583	107592534	1578523	234182395
Balance Value on 31.12.2012.	81065	97101205	6689956	137329241	2239185	2922180	12560	246375392

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:

LSEZ JSC "Liepājas osta LM" (Liepāja's Port stevedoring services, cargo, ship broker LM), Consolidated Financial report

number of shares - 95.2%. Business type - service, 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", Consolidated Financial report

number of shares - 100%. Scrap purchase.

Ltd. "Liepājas naglas"

number of shares - 100%. Production of nails and wirerod

OU "LM Ressurss", in Estonia

number of shares - 100%. Scrap purchase.

OOO "Torgovij dom Liepajskij metalurg", in Belarus

number of shares - 90%. Wholesale.

Companies not included in consolidation:

JSC "Sātiņi Energo LM"

number of shares - 50%. limestone extraction, processing, and realization.

LSEZ Ltd. "Elme-Messer-Metalurģs"

number of shares - 11.3%. production of industrial gas.

Minority shareholders

Minority shareholders of the companies involved in the consolidation are:

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

LSEZ JSC "Liepājas osta LM" 4.8% of shares - physical persons.

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

Ltd. "Ice-Hockey Hall Liepājas metalurgs" 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 Annual 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 Annual Report, differences in the accounting methods used by the companies included in the consolidation were considered. The Statement of comprehensive income 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 annual 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 Statement of financial positions 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 Statement of comprehensive income.

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 Statement of comprehensive income.

Accounts receivable (debtors) are presented in their book value, by deducting specific provisions for bad and doubtful debts. Following the conservative approach, the Statement of financial position includes only the actual accounts receivable dues. JSC "Liepājas Metalurgs" 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 Statement of financial position as other borrowings).

Long-term liabilities are mostly reflected as borrowings of the JSC "Liepājas Metalurgs" 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 Metalurgs" 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.

The provisions is consisting of the social expenses and provisions for unused vacations.

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 Statement of financial position, however, debtor totals in the Statement of financial position are reduced by this amount, because these amounts are usually the same.

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 31.12.2012.		As of 31.12.2011.	
	LVL	EUR	LVL	EUR
Customers and affiliated companies' debts	9970895	14187305	5530544	7869255
Incl. Debts of buyers and customers	7733047	11003135	5305967	7549711
(Doubtful debtors debt) /1907325/	/2713879/	/423435/	/556451/	
Incl. Debts of buyers with factoring activities	2237848	3184171	110793	157644
Incl. Debts of related enterprises (subsidiaries)	0	0	0	0
(Doubtful debtors debt) /500762/	/712520/			
Incl. Debtors with deferred payment	0	0	0	0
Incl. Debts of associated enterprises	0	0	113784	161900
Other debtors	1284606	1827830	1473833	2097075
Incl. Provision for VAT and unpaid VAT	29855	42480	34646	49297
Incl. Advance payments	7568	10768	5900	8395
Incl. VAT budget overpayments	935594	1331230	1162798	1654512
Incl. Debt for caused damages to the enterprise	90	128	0	0
Incl. Various debtors	163445	232561	151493	215555
Incl. Overpaid salaries	0	0	0	0
Incl. Advance payments for services	43584	62014	59696	84940
Incl. Advance prepayment for Corporate income tax	14621	20804	34157	48601
Incl. Other overpaid taxes	32107	45684	0	0
Incl. Security amounts in auction	57742	82159	25143	35775
Short-term loans to employees	9230	13133	7488	10654
Accrued income	0	0	24157	34372
Future periods payments	116501	165766	85648	121866
Incl. Press expenses	4784	6807	7334	10435
Incl. Various	31099	44250	1038	1477
Incl. Property insurance	78751	112053	72925	103763
Incl. Payment for ship freightage services	0	0	3959	5633
Incl. Services	1330	1892	0	0
Incl. Publicity and Advertisement	537	764	392	558
Total Debtors:	11381232	16194034	7121670	10133223

2. 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)	300	427	205912	292986	206212	293413	0	0	0	0
Real estate tax (land)	117	166	106309	151264	106426	151431	0	0	0	0
Residents' Income tax	328627	467594	4106884	5843569	4052231	5765805	35615	50676	418895	596034
Social Security tax	585431	832993	7125781	10139073	6881811	9791935	145309	206756	684092	973375
Corporate risk charge	694	987	8714	12399	8688	12362	0	0	720	1024
Corporate Income tax	-5258	-7481	47703	67875	34705	49381	0	0	7740	11013
Nature resources tax	13248	18850	62701	89215	64228	91388	0	0	11721	16677
Value added tax	-1170436	-1665380	3904720	5555916	3531991	5025570	132858	189040	-930565	-1324075
	-247277	-351843	15568724	22152299	14886292	21181285	313782	446472	192603	274049

Tax overpayment (-) is reflected in the Report on the financial standing in section "Other Debtors". In the year 2012 it is LVL 980070.

Credit liabilities for the taxes makes LVL 1101443.

The difference is LVL 121373.

3. Accounts Payable (Creditors)

CREDITORS	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Long- term creditors (credit institutions)	45400337	64598860	51149544	72779244
Other long-term borrowings	3162760	4500202	3046992	4335479
Other long-term borrowings (physical persons)	80000	113830	0	0
Other long-term borrowings (leasing)	2549647	3627821	0	0
Provisions for anticipated taxes	322695	459154	1625771	2313264
Deffered tax form revaluation reserve	5520659	7855190	6071227	8638578
Other creditors	18653	26541	15146	21551
Short-term borrowings from credit institutions	10051449	14301923	1512543	2152155
Loan interest	522977	744129	55006	78266
Short-term borrowings from credit institutions (credit line)	22408203	31884000	29714646	42280132
Short-term debt from leasing	1012654	1440877	827520	1177455
Advance payments (from residents)	813331	1157266	2416654	3438589
Advance payments (from non-residents)	23615750	33602185	30884641	43944885
Other borrowings (factoring)	2431683	3459973	130201	185259
Other borrowings (physical persons)	40225	57235	40000	56915
Debts to suppliers and contractors	48080668	68412627	35838782	50993993
Incl. Materials and gas	18239256	25952123	18146366	25819953
Incl. Services	13806096	19644305	10497529	14936638
Incl. Scrap, various services related to scrap delivery, processing	15544520	22117859	6825967	9712476
Incl. Fixed assets	472247	671947	234529	333705
Incl. Medical department creditors	5112	7274	2667	3795
Incl. Other Creditors	13437	19119	131724	187426
Debts to associated enterprises	453935	645891	559907	796676
Accrued liabilities	2459424	3499445	369660	525979
Taxes and social security insurance payments	1101443	1567212	984324	1400567
Incl. Value added tax	34884	49635	27008	38429
Incl. State tax	720	1024	695	989
Incl. Residents' Income tax	347665	494683	328627	467594
Incl. Real estate tax	0	0	417	593
Incl. Social Security tax	684092	973375	585431	832993
Incl. Packing tax	0	0	0	0
Incl. Nature resources tax	11721	16677	13247	18849
Incl. Enterprise's Income tax	22361	31817	28899	41120
Other creditors (liabilities)	1137848	1619012	911025	1296272
Incl. Payments for salaries	925694	1317144	807932	1149584
Incl. Deductions from salaries	39442	56121	34488	49072
Incl. Debt to accountable persons	103037	146608	1561	2221
Incl. Other Creditors	62710	89228	67044	95395
Incl. Received bail	6965	9910	0	0
Total Creditors:	171184341	243573373	166153589	236415258

*Additional information in chapter "Other information".

ENCLOSURES TO STATEMENTS OF COMPREHENSIVE INCOME

4. Net turnover (revenue) by products

Product Description	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Rolled steel	284887762	405358766	203933553	290171304
Billet	18279637	26009580	0	0
Castings	309018	439693	226935	322899
Wire	629402	895558	768788	1093887
Nails	703708	0	655601	0
Slag	12335	17551	599511	853027
Services	218066	310280	316396	450191
Construction works	43549	61965	177809	252999
Sold steam, gCal	8329	11851	8024	11417
Compressed Air	4049	5761	0	0
Medical department	921822	1311635	882970	1256353
Transportation services	17596	25037	11083	15770
Stevedoring services	5775239	8217425	5163613	7347159
Broker services	2892671	4115900	2636595	3751537
Freightage services	208941	297296	1530	2177
Forwarder and other services	4160261	5919518	4752910	6762782
Sports	334362	475754	348790	496283
Publicity and Advertisement	21597	30730	59146	84157
Beton (concrete) wares	903163	1285085	959485	1365224
Slag and waste processing	196967	280259	0	0
Other income	180249	256471	31782	45222
Scrap sale	6774	9639	28452	40484
Wholesale	195283	277863	0	0
Electric energy	105558	150196	88105	125362
TOTAL	321016338	456765098	221651078	315381071

5. Net turnover by geographic markets

Market	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Latvia	21254717	30242738	18661608	26553076
European Union countries	158209389	225111680	167024844	237654942
Other third countries	141552232	201410681	35964626	51173053
Total	321016338	456765098	221651078	315381071

6. Production costs of sold goods

Cost Description	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Materials	249503423	355011387	171184499	243573598
Salaries and wages	16675349	23726884	11760144	16733177
Social benefits deduction	3964720	5641288	2780664	3956528
Depreciation	9387626	13357388	5533159	7872976
Other costs	29018323	41289354	14297975	20344186
Write-off of nonmaterial values	1160	1651	68500	97467
Total	308550601	439027952	205624941	292577932

7. Sales expenses

Cost Description	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Packing materials	125396	178422	34801	49517
Transportation costs	3286275	4675948	3100605	4411763
Freight	0	0	144299	205319
Port handling charges	304823	433724	137548	195713
Advertising and marketing costs	68168	96994	60892	86642
Other sales costs	268650	382255	290495	413337
Costs related to sport events	627345	892632	0	0
L/C costs	132293	188236	0	0
Logistics services costs	4997635	7110994	5374525	7647260
Costs related to L/C and factoring transactions	56564	80483	11398	16218
Total	9867149	14039688	9154563	13025770

8. Administration expenses

Cost Description	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Salaries and social costs	4549705	6473647	3840701	5464825
Communication costs	99620	141746	92809	132055
Office supplies and office maintenance costs	1215686	1729765	1011482	1439209
Legal and auditing fees	157513	224121	149190	212278
Presentation costs	208989	297365	312937	445269
Depreciation of fixed assets	220814	314190	227438	323615
Traveling expenses	108230	153997	90674	129017
Management training	1187	1689	5261	7486
Costs of bank account services	132905	189107	72190	102717
Costs related to stockholders	18382	26155	21225	30200
Total	6713031	9551783	5823907	8286673

9. Other operating income

Income Description	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Sale of current assets	3323858	4729424	4179713	5947196
Intermediary services	2025513	2882045	0	0
Liquidation of fixed assets	127230	181032	947395	1348022
Sale of fixed assets	54927	78154	1689769	2404325
Rent of fixed assets	16225	23086	0	0
Written-off revaluation reserve of fixed assets	84282	119922	3232447	4599358
Currency exchange income	0	0	0	0
Received fine payments	363812	517658	20012	28475
Received discounts	0	0	45767	65121
Bad debt recovery	121524	172913	132196	188098
Other income from operating activity	1580815	2249297	1000134	1423062
Income recorded from the inventory decrease	0	0	0	0
Dotation (allowance)	509022	724273	451723	642744
Investment property revaluation	0	0	102000	145133
Previous period income	759	1080	0	0
Total	8207967	11678885	11801156	16791532

10. Other operating costs

Cost Description	As of 31.12.2012		As of 31.12.2011	
	LVL	EUR	LVL	EUR
Sales costs of current assets	3767885	5361217	4340751	6176332
Costs of intermediary services	1770616	2519360	0	0
Costs related to the sale and liquidation of fixed assets	177189 115833	252117 164816	694993 523584	988886 744993
Currency exchange loss	227812	324147	749277	1066125
Reserve on the doubtful debtors	24600	35003	0	0
Provisions for bad debts	1618157	2302430	166889	237462
Bad debt write-off	215	306	131954	187754
Investment property value reduction	123000	175013	0	0
Compensation for damage and other allowances	80541	114600	63040	89698
Other costs	309775	440770	1013265	1441746
Paid fines	75764	107802	3573	5084
Costs not related to the operating activities	859469	1222914	297790	423717
Costs of infrastructure maintenance	16729	23803	20714	29473
Training of new employees	42835	60949	35481	50485
Costs of previous period	3099	4409	18549	26393
Extraordinary costs (modernisation)	0	0	874506	1244310
Costs of representative auto maintenance	43436	61804	45970	65409
Total	9256955	13171460	8980336	12777867

OTHER INFORMATION

Creditor Obligations of the Mothers company

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 Metalurgs". 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 metalurgs" 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 metalurgs" are stated as security for the loan in JSC "SEB banka".