

JOINT STOCK COMPANY

**‘KURZEMES ATSLEGA 1’
LV40003044007**

**Audited
ANNUAL REPORT**

2006

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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– December 31, 2005
Members of Supervisory Council (until April 15 ,.2006)	Valdis Bikis – "KURZEMES ATSLEGA 1", JSC, Technical Director – Chairman of Supervisory Council Raitis Brikmanis – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Engineer - Electrician. Juris Grasmanis – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Engineer - Mechanic. Andris Taurins – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Ivars Lacis – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller
Members of Supervisory Council (from April 15, .2006)	Valdis Bikis – "KURZEMES ATSLEGA 1", JSC, Technical Director – Chairman of Supervisory Council Peteris Hanka – Member of Supervisory Council, Guntars Stekjanis – KURZEMES ATSLEGA 1", JSC, economist, Member of Supervisory Council, Andris Taurins – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Ivars Lacis – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller
Members of Board	Janis Plume – Member of Board, "Kurzemes Atslega 1", JSC, Production Manager Inara Burve – Member of Board, "Kurzemes Atslega 1", JSC, Chief Accountant.
Chairman of Board	Aivars Puisitis
Auditor	Certified Auditor Aivars Rutkis , Certificate Nr. 18

2. Report of Direction

The annual volume of output of Joint stock company “ KURZEMES ATSLEGA 1” in year 2006 (in comparable prices) was 1823.3 t. LVL. The increment rate of volume of output (in comparable prices) makes 102.1 %. As in previous years, the largest proportion in total production remains door locks and ironmongery.

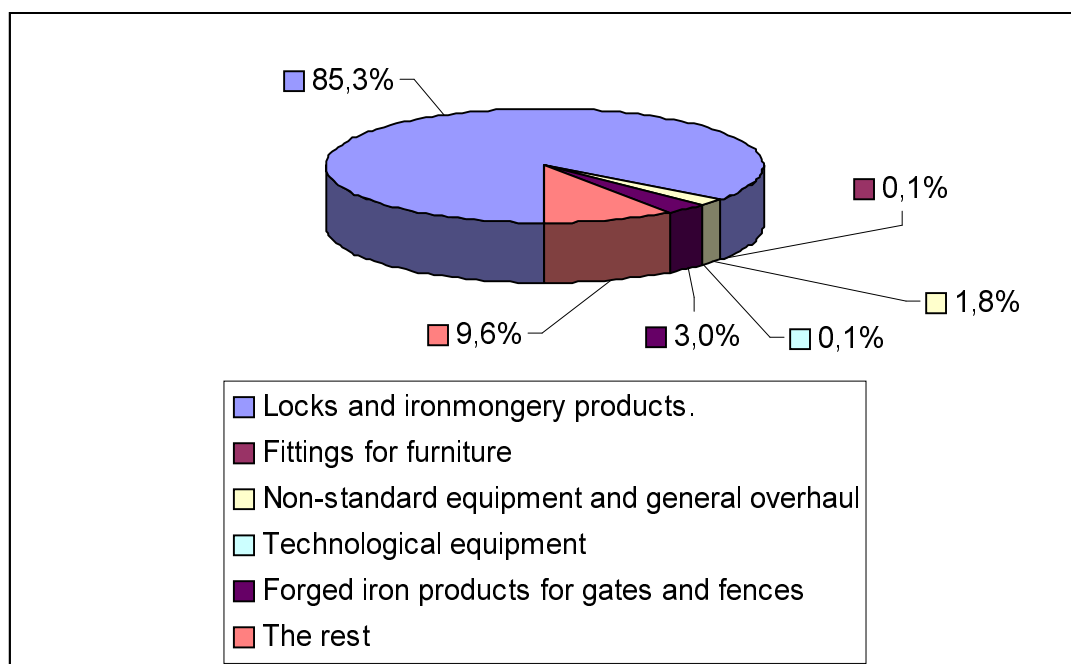


Figure 1. The structure of manufactured production in 2006 (%).

The changes in structure of production in comparison with previous year are shown below.

Table 1

Changes in production structure.

No	Kind of products	Proportion in gross 2005 (%)	Proportion in gross 2006 (%)
1	Locks and ironmongery products.	87.4	85.3
2	Fittings for furniture	0.1	0.1
3	Non-standard equipment and general overhaul	3.3	1.8
4	Technological equipment	0.3	0.1
5	Forged iron products for gates and fences	1.9	3.0
6	The rest	7.0	9.6
	Total:	100	100.0

From table is evident that in 2006 there had continued the decrease of proportion of locks and ironmongery in produced production.

The volume production of the self-made non-standard equipment and volume of the major overhauls, made by factory ourselves, has decreased also. The reasons for that are two greater projects that were finished in 2005:

- Introduction of environment friendly technology in electroplating shop,
- Modernization of system of manufacture of thermal energy and a heat supply.

Reduction of these two positions in 2006 has been compensated by a gain of manufacturing forged iron for gates and fences and other production. Especially it is necessary to note almost twofold gain of manufacture of forged iron for gates and fences during the last year.

The value of own-produced goods (in sales prices without VAT) in 2006, by the side of year 2005 has increased on 9.2%. It is necessary to note, that this gain has been to a great extent connected with a gain of the prices of realization. The volume of sold products has divided as follows:

- The sales in Latvian market: - 54.8%,
- Export – 45.2%.

Please see the structure of sales in 2006 by the various markets in the chart below (in percentage to total amount of sales).

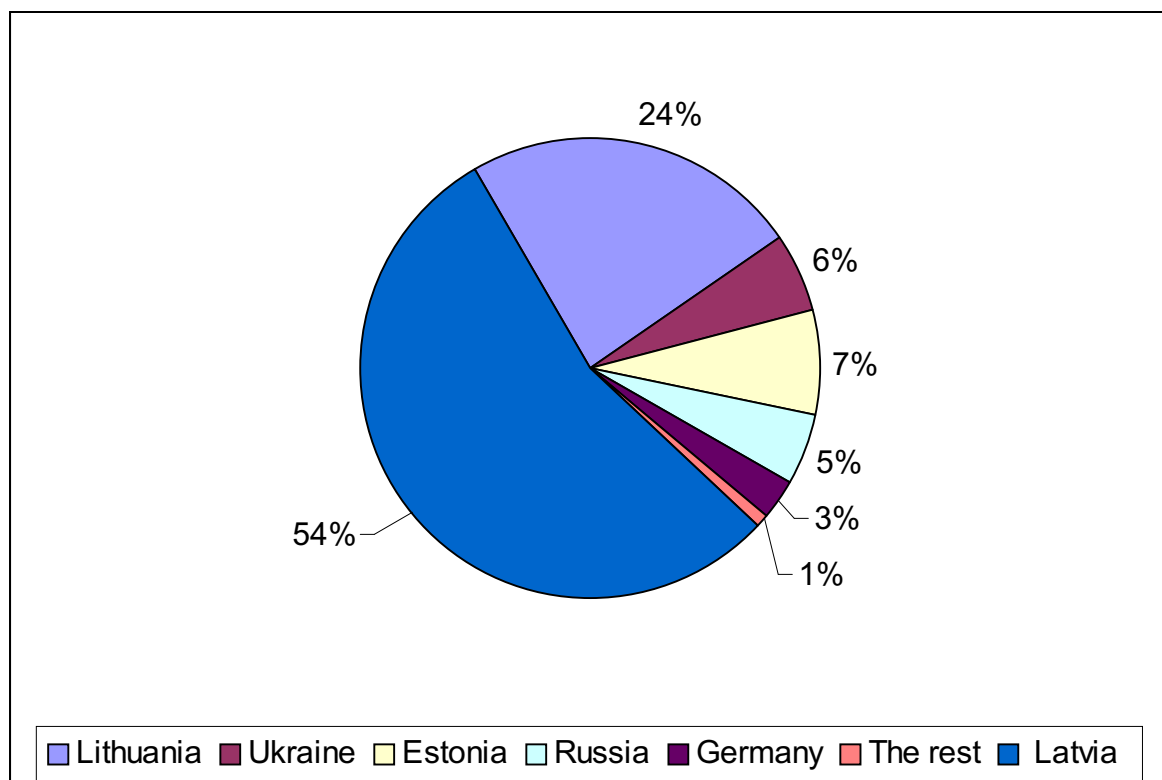


Figure 2: The sales in 2006 by the markets

By the side of 2005, the export of products has increased on 5.3% or 39.3 thousands LVL.

The distribution of export by countries, see in table below.

Table 2

The distribution of export by countries

No:	Country	Delivered (thousands LVL)		% compared to year 2005
		2005	2006	
1	Lithuania	434.6	410.8	94.5
2	Ukraine	92.4	97.4	105.4
3	Estonia	110.8	123.3	111.3
4	Russia	53.9	84.9	157.5
5	Germany	49.0	52.3	106.7
6	Finland	0	1.0	
7	Kyrgyzstan	0	6.8	
8	Ireland	0.2	0	
	Total:	740.9	780.2	105.3

As evident, the largest increase in 2005 (in financial terms – 31 thousands LVL) was in export to Russia.

Concerning the Ukrainian market, as from 2001 the position is being lost.

Please see the dynamics of export over a period from 2002 to 2006 by the countries in the Figure 3 below.

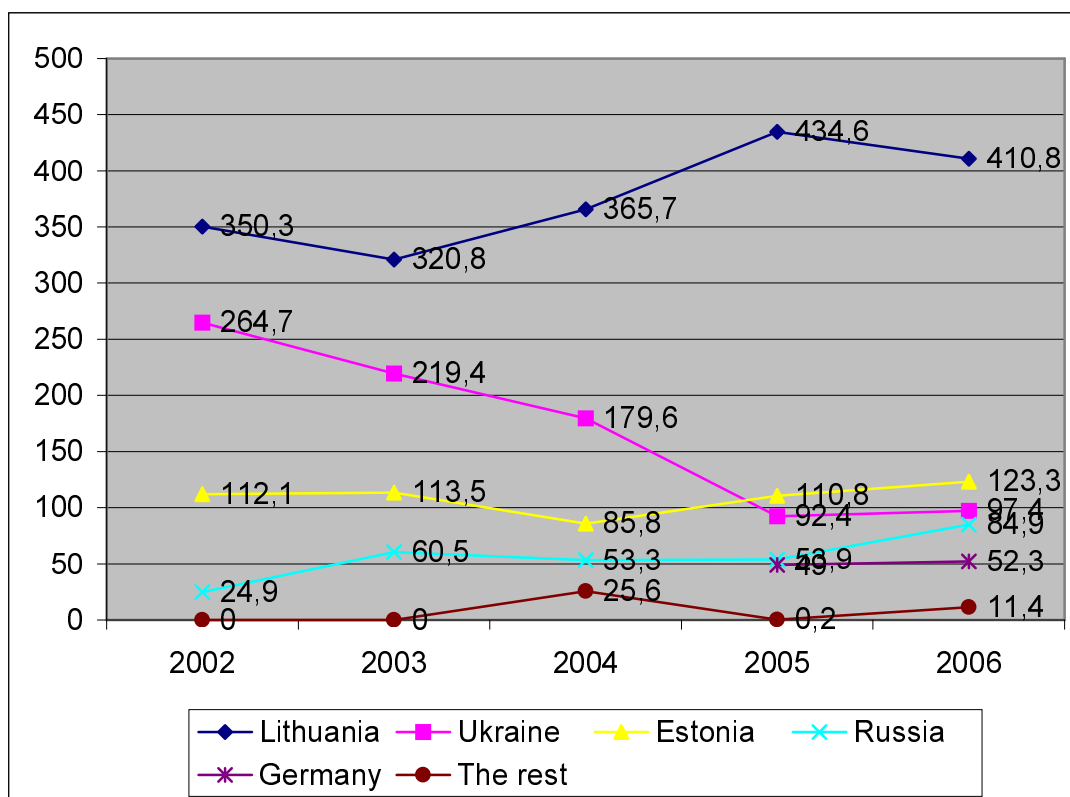


Figure 3: The dynamics of export by the countries

Number of employees and average earnings.

The average annual number of employees by the side of previous year is decreased by 4 % and was 195 persons. The average monthly salary in 2006 had been increased on 14.7 % and is 203 LVL

The salary of Supervisory Council and Board

First name,Name	Position	Monthly wages, LVL
Valdis Bikis	Chairman of the Supervisory Council	90.00 Ls
Peteris Hanka	Member of the Supervisory Council	90.00 Ls
Guntars Stekjānis	Member of the Supervisory Council	45.00 Ls
Ivars Lacis	Member of the Supervisory Council	45.00 Ls
Andris Taurins	Member of the Supervisory Council	45.00 Ls
Aivars Puisītis	Chairman of the Board	540.- Ls
Janis Plume	Member of the Board	90.00 Ls
Inara Burve	Member of the Board	90.00 Ls

The net turnover in year 2006 by side of 2005 has increased for 9.5% and it makes 1782.3 thousand LVL. The budget made by board, in 2006 regarding incomes is executed on 99.5 %, and regarding charges on 99.4 %.

Year 2006 is characterized by a significant gain of the prices of materials, therefore volume of profit in 2006 is lower than in 2005. The retained earnings for December 31, 2006 were 16265 LVL. In comparison with year 2005 what has been completed with retained earnings 23644.0 LVL, volume of retained earnings is considerably lower. The major increment of charges is connected with growth in price of zinc and aluminum since January 1, 2006. In 2006 there became actual a question on providing of enterprise with the qualified labor force, wherewith it was necessary for considerably rise of wages, what has caused a gain of expenses also.

In conditions when continuously grows the prices of material resources, the enterprise is compelled to get materials in greater parties, that long-term calculation is paid due to the prices as each following party of a material should be bought more expensively.

In conditions when continuously grows the prices of material resources, the enterprise is compelled to buy materials in greater parties, that in long-term calculation is paid off because each following party of a material should be bought more expensively. In consequence of it the turnover of current assets decreases and there is a necessity on additional current assets. Therefore AS "KURZEMES ATSLEGA 1" in September 2006 has increased a limit of the credit line from 40,000.0 LVL on 50,000.0 LVL. For the guarantee of increase in a limit of the credit for AS DnB NORD the commercial mortgage on resources in volume 35,000.0 LVL is given out.

In December, 2006 was made the advance payment 51,980.0 EUR (36,531.75 LVL) for the equipment which is provided for realization of the scheme of grants "Support of contributions in development of the enterprises in especially supported territories" of the project "Introduction of innovative technology of spot welding of the galvanized details". The equipment is set up and since January 26, 2006 is put into operation. The implementation of this project will enable to improve quality of products and to reduce production costs.

Activity of AS " KURZEMES ATSLEGA 1" in 2007

The primary goal for AS " KURZEMES ATSLEGA 1" in 2007 is the increase in volume of profit. In 2007 is planned to reach the profit 0.05 LVL on the share that makes c.a. 46.0 thousand LVL.

To reach this goal, it is planned as follows:

- 1) To increase a sales volume of production in 2007 by 10.00 %.
- 2) To increase earnings of employees on 15 - 20 %, minimum of 30.0 % from gain of wages to provide with raising the productivity of labour, to improve structure of internal management of the enterprise, reducing number of the administrative personnel.

- 3) In circumstances of existence of high inflation and the unstable prices of material resources pay the greatest attention to reduction of charges:
- Draw up the plan of reduction of reduction of the charge of power charges.
 - To estimate opportunities to increase the proportion of purchased products and accessories in the general charges, thus partially solve the problem of a labor force.

Tax payment.

“KURZEMES ATSLEGA 1”JSC in 2006 had been performed the following tax payments

Kind of tax	2006. LVL	2006 EUR	2005. LVL	2005 EUR
Value added tax	29932	42589	26093	37127
Income tax of enterprise	1183	1683	3550	5051
Income tax of inhabitants	79977	113797	76639	109047
Obligatory payments of the state social insurance	155925	221861	142754	203121
Tax to the real estate	5911	8411	5931	8439
Tax to natural resources	839	1194	902	1283
Business risk fee	657	935	841	1197
TOTAL	274424	390470	256710	365265

For “KURZEMES ATSLEGA 1”JSC in 2005 had been calculated the following tax payments

Kind of tax	2006. LVL	2006 EUR	2005. LVL	2005 EUR
Income tax of enterprise				
Income tax of inhabitants	83381	118640	76172	108383
Obligatory payments of the state social insurance	157193	223665	142301	202476
Tax to the real estate	5966	8489	6064	8628
Value added tax	37194	52922	26093	37127
Tax to natural resources	723	1029	785	1116
Business risk fee	562	800	841	1197
TOTAL	285019	405545	252256	358927

April 21 2007

Aizpute

Statement of responsibility of direction.

Audited report of 2006 and a report of board are prepared being guided by the kindest conscience and good accounting practice. The accounting period is estimated being based on all information known to us at the moment of preparation of the financial report. Financial report gives a real and clear idea about assets, liabilities, financial situation and profits .

Responsibility for non-audited semiannual report of 2006 bears the Board of joint stock company "KURZEMES ATSLEGA 1".

The Board of AS "KURZEMES ATSLEGA 1":

Chairman of the Board Aivars Puisītis

Member of the Board Janis Plume

Member of the Board Inara Burve

Name of the company: JSC "KURZEMES ATSLEGA1 "

Registration Nr. 40003044007

VAT Reg. nr. LV 40003044007

Address : Kalvenes -27, Aizpute, LV 3456

UNIT :LVL, EUR

BALANCE SHEET

for 2006

ASSETS 1	Row code	31.12..2006 LVL	31.12.2006 EUR	31.12..2005 LVL	31.12.2005 EUR
1.LONG TERM INVESTMENT					
I.Intangible fixed assets					
1.Concessions, patents, licences, trade mark	60	2000	2971		
II.Fixed assets					
1.Land, building.	70	400637	570055	403785	574534
2.Equipment and machinery	90	146609	208606	169976	241854
3.Other fixed assets	100	69121	98350	75966	108090
4.Fixed assets developmant costs	110	49791	70846	102159	145359
5.Prepayment for fixed assets	120	36532	51980		
II Total fixsed assets	130	702690	999837	751886	1069837
III.Long term finansial investment					
1.Other investment and securities	180			691	983
2.Other loans	190				
III.Total Long term finansial investment	220			691	983
1.Total LONG TERM INVESTMENT	230	704778	1002808	752577	1070820
2.CURRENT ASSETS					
1.Inventories					
1.Raw materials	240	308997	439663	292968	416856
2.Work in progress	250	189779	270031	150375	213964
3.Finished goods and goods for sale	260	121690	173149	116347	165547
5.Advance payment for goods	280	7312	10404	15299	21769
I.Total inventories	300	627778	894482	574989	818136
II.Debtors					
1.Trade debtors	310	162172	230750	133413	189830
4.Other debtors	340	5013	7133	10871	15468
7.Deferred expenses	370	259	369	1488	2117
II.Total debtors	380	167144	238252	145772	207415
III.Securities and capital participation					
IV . Cash	430	8153	11601	6586	9371
2.Total current assets	440	803375	1143100	727347	1034922
Total assets	450	1508153	2145908	1479924	2105742

LIABILITIES 1	Row code	31.12..2006	31.12.2006	31.12..2005	31.12.2005
		LVL	EUR	LVL	EUR
1.CAPITAL					
1.Share capital	460	918144	1306402	918144	1306402
3.Revaluation reserve	480	9142	13008	-94	-134
4.Reserves					
a)legal reserves	490				
4.Total reserves	530				
5.Retained profit					
a) previous years retained profit	540	269306	383187	312429	444546
current year profit	550	16265	23143	23644	33642
1Total Capital and reserves	560	1212857	1725740	1254123	1784456
2.PROVISIONS					
3.CREDITORS					
1.Long term creditors					
Other loans	640	30922	43998	43111	61342
.Amounts payable to associated companies	650	40375	57448	40375	57448
deferred tax:	660	45004	64035		
1.Total long term creditors	750	116301	165481	83486	118790
2.Short-term creditors					
3. Other loans	780	19115	27198	18678	26576
4..Bank loan	790	25400	36141	20130	28642
5.Advances received from customers	800	9382	13352	3282	4670
6.Trade creditors	810	73638	104777	53325	75875
8.Amounts payable to associated companies	830	8800	12521	8318	11835
10.Taxes and social security pauments	850	20189	28726	18686	26588
11.Other creditors	860	22471	31973	19896	28310
12.Deferred income	870				
2. Total short-term creditors	900	178995	254630	142315	202496
Total creditors	910	295296	420111	225801	321286
Total liabilities	920	1508153	2145908	1479924	2105742

currency exchange rate on 31.12.2005 LVL/EUR 0.7028204

currency exchange rate on 31.12.2006 LVL/EUR 0.7028204

The principles of accounting and methods of valuation:

The annual report 2006 has been prepared in accordance with laws of Republic of Latvia “On Bookkeeping”, “On Annual Reports of Enterprises” and Latvian standards of Bookkeeping. The Income Statement has been prepared using scheme of turnover costs. The Cash Flow report has been prepared using indirect method. The fixed assets have been evaluated in purchase prices and they have been reflected in balance by the residual value. The wear and tear of fixed assets has been calculated using linear method and norms, approved by management. The raw materials have been

evaluated using weighted-average standard first cost (price). The unfinished production and finished products have been evaluated in standard first

Calculation of deferred tax:

No		31.12.2004	31.12.2005	31.12.2006
1	Book value of capital assets	591,121	646,627	613,268
2	value of capital assets (13.p.)	271,334	262,727	313,243
3	Temporary difference	-319,787	-383,900	-300,025
4	Deferred tax	-47,968	-57,585	-45,004

The first acknowledgement of deferred taxation in financial statement is made accordingly to the clause 7 of law for Annual report.

(1) In annual report every item of calculation of balance, profit or loss, cash flow statement and changes in own capital should show also corresponding figures of previous year of account. If there were found errors in previous years or there were changed the politics of bookkeeping, the corresponding items in report of previous year should be changed. About every case, when the date were mutually beyond compare or there were made corrections of data of annual report of previous years, there should be offered the explanation in appendix to annual report.

Influence of material error for the period till December 31, 2004 makes 47,968 LVL, what reduces retained earnings. Influence of material error in 2005 makes 9,617 LVL, what reduces retained earnings of 2005.

Appendices to balance sheet .

1. The rest of securities.

On the December 31 ,2005 to "KURZEMES ATSLEGA 1" 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. Actions are sold on April 21 st, 2006 at the price of 3.30 LVL (a total sum 1983.30 LVL)

2. The distribution of trade debtors by countries

Valstis	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Latvia	78484	111673	61711	87807
Lituania	57899	82383	48183	68558
Estonia	6303	8968	6095	8672
Russia	11214	15956		
Germany			5914	8415
Ukraina	8272	11770	11510	16378
Total	162172	230750	133413	189830

3. Other debtors.

Kind of debtor	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Overpayment of income-tax of enterprise	1308	1861	3802	5410
Calculated bit unpaid pretax	859	1222	918	1306
Other debtors	2846	4050	2011	2861
Overpayment of value adde tax			4140	5891
Kopā	5013	7133	10871	15468

4. Joint –stock or share capital.

The share capital consists of 918144 equities with nominal value 1.00 LVL .:

- in public returns 656356 ,
- in closed register 261788.

48.36% (443976 equites)of share capital belongs to A/S “KURZEMES ATSLEGA 1”, reg.40003253124. 10% of share capital belongs to Bargain Trade Oy ,Finland

Shareholders of JSC”KURZEMES ATSKLEGA 1”- members of the company Board and Council

First name,Name	Position	Number of equites
Chairman of the Supervisory Council	Valdis Biķis	8060
Member of the Supervisory Council	Ivars Lācis	7376
Member of the Supervisory Council	Guntars Stekjānis	461
Member of the Supervisory Council	Pēteris Hanka	3974
Member of the Supervisory Council	Andris Tauriņš	0
Chairman of the Board	Aivars Puisītis	0
Member of the Board	Jānis Plūme	13
Member of the Board	Ināra Burve	1500
	Total	21384

According to statutes of JSC "KURZEMES ATSLEGA1" the company represents all members of board together.

Stockholder rights are regulate by LR legislation.

Between enterprise and regents there is not any agreement about compensation in case of resign.

5. Other borrowings (long term creditors)

	Currency of loan	Exchange rate	EUR	LVL
Nordic Environment Finance Corporacion (as at December 31, 2005)	EUR	0.702804	39237	27576
Nordic Environment Finance Corporacion (as at December 31, 2006)	EUR	0.702804	27274	19168
NORD/LB Leasing 31.12.2005	EUR	0.702804	22104	15535
NORD/LB Leasing 31.12.2006	EUR	0.702804	16724	11754
Totally as at December 31,2005	EUR	0.702804	61341	43111
Totally as at December 31,2006			43998	30922
JSC "KURZEMES ATSLEGA" 31.12.2005	LVL	0.702804	57448	40375
JSC "KURZEMES ATSLEGA" 31.12.2005	LVL	0.702804	57448	40375

6. Other borrowings (Short-term creditors)

	Val.	kurss	Summa EUR	Summa LVL
Nordic Environment Finance Corporacion 31.12.2005	EUR	0.702804	21450	15075
Nordic Environment Finance Corporacion 31.12.2006	EUR	0.702804	21818	15334
NORD LB/Leasing 31.12.2005	EUR	0.702804	5126	3603
NORD LB/Leasing 31.12.2006			5380	3781
TOTAL 31.12.2005			26576	18678
TOTAL 31.12.2006			27198	19115

7. Borrowings from credit institutions.

	Currency of loan	LVL	Exchange Rate	EUR
A/S NORD/LB Latvija 31.12.2005	LVL	20130	0.702804	28642
/S NORD/LB Latvija 31.12.2006	25400	0.702804	36141	25400

8. Trade creditors

Busines partner	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Enterprises of latvia	61001	86797	44303	63038
Enterprises of Lithuania	4308	6130	7637	10866
Enterprises of Italy	8329	11850	1385	1971
TOTAL	73638	104777	53325	75875

9. Liabilities to associated Enterprises

Busines partner	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
A/S "Kurzemes atslega"	8800	12521	8318	11835

10. Taxes and Obligatory payments of the state social insurance

Kind of taxes	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Income tax of inhabitants	6224	8856	7017	9984
Obligatory payments of the state social insurance	12354	17578	11292	16067
Other tax	1611	2292	377	537
Total	20189	28726	18686	26588

11. The rest of creditors.

Kind of creditors	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Wages for december	19966	28409	17563	24990
Deduction from wages	363	517	424	603
Dividend			0	
Other creditors	2142	3048	1909	2717
Total	22471	31973	19896	28310

JSC "KURZEMES ATSLEGA 1"
 reg.No.40003044007
 Taxpayer No.LV40003044007
 Address : Kalvenes str.27, Aizpute

Profit or loss account
 year 2006.

N.	Item	line No	31.12.2006	31.12.2006	31.12.2005	31.12.2005
			LVL	EUR	LVL	EUR
			LVL	EUR	LVL	EUR
1	Net sales	10	1782501	2536333	1627870	2316250
2	Cost of sales	20	-1589461	-2262762	-1446411	-2058057
3	Gross profit	30	193040	273571	181459	258193
4	Distribution expenses	40	-16926	-24084	-21568	-30688
5	Administration expenses	50	-150444	-213698	-130799	-186111
6	Other operating income	60	39227	55880	39285	55897
7	Other operating expenses	70	-51966	-73880	-36851	-52434
8	Income from participation in subsidiary capital	80				
10	Income from other interest and similar incomes	100	24	34	37	52
11	Long term investments and short-terms bond write-off	110				
12	Interest paid and similar expense	120	-3305	-4469	-1855	-2639
13	Operating profit	130	9650	13355	29708	42270
14	Extraordinary income	140				
15	Extraordinary expenses	150				
16	Profit before taxes	160	9650	13355	29708	42270
16	Corporate income tax	170				
17	Deferred tax		12581	17901	-9617	-13684
18	Other taxes	180	-5966	-8489	-6064	-8628
19	Net profit for the year	190	16265	22767	14027	19958

31.12.2005 1EUR=0.702804

31.12.2004 1EUR=0.702804

EPS 2005 0.026 LVL , 0.037 EUR

EPS 2006 0.018 LVL, 0.026 EUR

Appendices for profit and loss account

1. Net sales

Modus operandi	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Incomings from production of locks and ironmongery	1723069	2451706	1578398	2245857
Incomings from sales of goods in shop	35048	49869	28084	39960
Incomings from rendering of services	8515	12116	7174	10208
Incomings from rendering of public facilities	15869	22579	14214	20225
Total:	1782501	2536270	1627870	2316250

2. Production costs of sales.

The main elements of expenses	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Material costs	1016990	1447046	871369	1239846
Wages	351759	500508	326346	464349
Obligatory payments of the state social insurance	83872	119339	78371	111512
Electrical energy	57499	81814	53983	76811
Costs of depreciation of fixed	83182	118358	68174	97003
The rest of expenses	91355	129986	84882	120776
Expenses in total	1684657	2397051	1483125	2110297
Correction of expenses				
Changes of remains of unfinished production	-39404	-56067	-5534	-7874
Changes of remains of self-made punches, molds and materials	-23192	-32999	-12872	-18315
Changes of remains of complete product	-1729	-2460	35691	50784
Changes of remains self-made fixed assets	-30871	-43925	-53999	-76835
Total	1589461	2261599	1446411	2058057

3. Distribution expenses

The main elements of expenses	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Wages	10000	14229	10588	15065
Social expenses	2423	3448	2509	3570
The rest of expenses	4503	6407	8471	12053
Total	16926	24084	21568	30688

4. Administration expenses.

The main elements of expenses	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Wages	111836	159128	93250	132683
Social expenses	27015	38439	25013	35591
The rest of expenses	11593	16496	12536	17837
Total	150444	214063	130799	186111

5. The rest of incomes for economic activity

Sort of revenue	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
Sales of current assets	29202	41551	29069	41361
Incomes from exchange rate fluctuations	1816	2584	3954	5626
The rest of incomes	8209	11680	6262	8910
Total	39227	55815	39285	55897

6. The rest of expenses for economic activity of enterprise

Heads of expenditure	31.12.2006 LVL	31.12.2006 EUR	31.12.2005 LVL	31.12.2005 EUR
First cost of sold current assets	25687	36550	22484	31992
Expenses for social sphere	3400	4838	2540	3614
Expenses, unrelated with economic activity, donations	13643	19411	11827	16828
Revaluation reserve	9236	13142		
Heads of expenditure	51966	73940	36851	52434

The name of enterprise: **Joint-stock company "KURZEMES ATSLEGA 1"**

Reg.No.: **40003044007**

Address: **Kalvenes street 27, Aizpute, district Liepāja, LV3456, Latvia**

Cash flow statement 2006

(Cash flow statement, prepared using indirect method)

Indices	Appen ndici es	31.12.05.	31.12.2005	31.12.04.	31.12.04
		LVL	EUR	LVL	EUR
2	1.	3.	4	5	6
I.Operation activities					
I.					
1. Profit or loss before extraordinary items and taxes.		9650	13731	29708	42270
Corrections:		95669	136168	69992	99590
a) Wear and tear of fixed assets;		83182	118357	68174	97003
b) Value cancellation if long-term investments;		9236	13142	0	0
c) Formation of reserves (except the reserves for unreliable debt);				0	0
d) Profit or loss from fluctuation of foreign currency exchange rate;				0	0
e) Proceeds from partnership in capital of subsidiary company and associated enterprises				0	0
f) Proceeds from no securities and loans, that have been made long-term investment				0	0
g) The rest of incomes and similar incomes		-24	-34	-37	-52
h) Long-term financial investment and cancellation of value short-term securities				0	0
i) Interest payments and similar expenses		3305	4703	1855	2639
					0
2. Profit or loss before corrections of effects of changes of current assets and short-term liabilities		105349	149989	99700	141860
					0
Adjustments:		-43487	-61876	-52758	-75068
a) Increase or decrease of residues of debts of debtors;		-21672	-30836	-49482	-70411
b) Increase or decrease of residues of resources;		-52789	-75112	16426	23372
c) Increase or decrease of remains of debts to be paid to suppliers, contractors and other creditors.		30974	44072	-19699	-28029
3. The gross cash flow of basic activity.		61862	88021	46942	66792
4. Expenses for interest payments.		-3305	-4703	-1885	-2639
5. Expenses for payments of enterprise income tax				0	0
6. Expenses for fixed asset tax payments		-5966	-8489	-6064	-8628
7. Cash flow before extraordinary items.		52591	74829	39023	55525
8. Cash flow from extraordinary items.				0	0
					0
8. The net cash flow of basic activity		52591	74829	39023	55525

1.	2.	3.	4	5	8
			0		0
II. Investing activities					
1. Purchase of shares or parts of related or associated enterprises.				0	0
3. Purchase of fixed assets and nonmaterial investments		-97558	-138812	-94190	-134020
4. Proceeds from sales of fixed assets and nonmaterial investments.		62611	89087	0	0
5. Granted loans					
6. Proceeds from repayment of loans				0	0
7. Entered interests		24	34	37	53
8. Cash in deposit					
9. Received dividends					
9. Net cash flow used in investing activities		-34923	-49691	-94153	-122968
			0		0

III. Financing activities

1.	2.	3.	4	5	8
			0		0
1. Proceeds from issue of shares and bond or participation shares of capital investments.		0	0	0	0
2. Loans received		8362	11898	73779	104978
3. Financial aids, pump-priming, presents or donations received				0	0
4. Expenses for repayment of loans		-15281	-21743	-12464	-17735
5. Expenses for redemption of hired fixed assets				0	0
6. Dividends paid		-9182	-13065	-4591	-6532
7. Changes of reserves				0	0
7. Net cash flow of financing activity		-16101	-22910	56724	80711
			0		0
			0		0
IV. The result of exchange rate fluctuations of foreign currency.		0	0	0	0
			0		0
V. The net cash flow of year of account		1567	2230	1594	2268
			0		0
VI. The reminder of currency and its equivalents at the beginning of year of account.		6586	9371	4992	7103
VII. The reminder of currency and its equivalents at the end of year of account.		8153	11601	6586	9371

JSC "KURZEMES ATSLEGA 1"
 reg.No.40003044007
 Taxpayer No.LV40003044007
 Address : Kalvenes str.27,Aizpute

STATEMENT OF CHANGES IN EQUITY
 YEAR 2006

(LVL)

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
AS of 31 december 2004 LVL	918144	-94		317020	1235070
Deferred tax				-47968	-47968
As of 31 december 2004 LVL	918144	-94	0	269052	1187102
Current year profit				23644	23644
dividend paid				-4591	-4591
Deferred tax				-9617	-9617
As of 31.december 2005 LVL	918144	-94	0	278488	1196538
dividend paid				-9182	-9182
Current year profit				16265	16265
Revaluation reserve		9236			9236
As of 31.december 2006LVL	918144	9142		285571	1212857

JSC "KURZEMES ATSLEGA 1"
 reg.No.40003044007
 Taxpayer No.LV40003044007
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STATEMENT OF CHANGES IN EQUITY
 YEAR 2006
 (EUR)

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
AS of 31 december 2004 EUR	1306402	-134		451079	1757346
Deferred tax				-68252	-68253
As of 31 december 2004 EUR	1306402	-134		382827	1689094
Current year profit				33642	33642
dividend paid				-6532	-6532
Deferred tax				-13684	-13684
As of 31.december 2005 EUR	1306402	-134		396253	1702520
dividend paid				-13066	-13066
Current year profit				23143	23143
Revaluation reserve		13143			13142
As of 31.december 2006 EUR	1306402	13009		406330	11725740

JSC "KURZEMES ATSLEGA 1"
 LV40003044007
 Aizpute, Kalvenes -27, LV 3456

Summary of movement of long – term investment 2006
 (LVL)

Kind of long-term Investment	Initial cost					Depreciation					Residual value	
	As at Dec 31.2004	Purchase and making	Re-valuation	Shift and Removal from action	As at Dec 31.2005	As at Dec 31.2004	Calculated In year of account	transfer	Excluded, Remoned from activity	31.12.2005	As at Dec 31.2004	As at Dec 31.2005
Licenses		2325			2325		237			237		2088
II. CAPITAL ASSETS (kopā)	1611207	86917	-119	61475	1636530	859321	83182		8663	933840	751886	702690
Inter alia:	0					0					0	
1. Plots, houses, buildings	665747	6476			672223	261962	9624		4047	271586	403785	400637
2. Technological equipment and machineri	712820	35725		4047	744498	542844	59092		4616	597889	169976	146609
3. The rest of capital assets, inventory.	130481	8184	-119	5060	133486	54515	14466			64365	75966	69121
4. Origination of capital assets	102159			52368	49791	0					102159	49791
5. Advabce payments	0	36532			36532	0					0	36532
	0					0					0	
III. LONG – TERM FINANCIAL INVESTMENTS (total)	691			691		0					691	
credits	0					0					0	
Securities	691			69		0					691	
	0					0					0	
LONG-TERM INVESTMENT TOTAL	1611898	89242	-119	62166	1638855	859321	83419		8663	934077	752577	704778
	0				0	0				0	0	0

JSC "KURZEMES ATSLEGA -1"
 LV40003044007
 Aizpute, Kalvenes -27, LV 3456

Summary of movement of long-term investment 2005 (EUR)

Kind of long-term Investment	Initial cost					Depreciation					Residual value	
	As at Dec 31.2004	Purchase and making	Re-valuation	Shift and Removal from action	As at Dec 31.2005	As at Dec 31.2004	Calculated In year of account	transfer	As at Dec 31.2004	Purchase and making	Re-valuation	Shift and Removal from action
Licenses		3308			3308		337			337		2971
II. CAPITAL ASSETS (kopā)	2292541	123672	-169	87468	2328577		118357		12326	1328735	1069837	999837
Inter alia:												
1. Plots, houses, buildings	947272	9215			956487	372738	13694		5758	386433	574534	570055
2. Technological equipment and machineri	1014251	50832		5758	1059325	772397	84080		6568	850719	241854	208606
3. The rest of capital assets, inventory.	185659	11645	-169	7198	189938	77569	20583			91583	108090	98350
4. Origination of capital assets	145359			74512	70847						145359	70846
5. Advabce payments		51980			51980						0	51980
III. LONG –TERM FINANCIAL INVESTMENTS (total)	983			983							983	
credits												
Securities	983			983							983	
LONG-TERM INVESTMENT TOTAL	2293524	12680	-169	88451	2331885	1222704	118694		12326	1329072	1070820	1002808

Chairman of the Board:

Member of the Board

Aivars Puisitis

Janis Plume

Inara Burve

Translation

INDEPENDENT AUDITORS' REPORT**To the Shareholders of Kurzemes atslēga-1 AS****Report on the Financial Statements**

We have audited the accompanying financial statements on pages 1 to 24 of Kurzemes atslēga-1 AS which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 as adopted by the Latvian Association of certified auditors. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 accompanying financial statements give a true and fair view of the financial position of Kurzemes atslēga-1 AS as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Report on the Management Report

We have read the Management Report set out on pages 4 to 9 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2006.

Certified auditors' company
Revidentu serviss SIA
Audit company licence No. 15



Mag.sc.soc., Aivars Rutkis
Certified auditor, Certificate No. 18
Chairperson of the Board