

JOINT STOCK COMPANY

**‘KURZEMES ATSLEGA 1’
LV40003044007**

**ANNUAL REPORT
2011
(AUDITED)**

FOR THE PERIOD
01.01.2011-31.12.2011

**Aizpute
2012**

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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, 2011– December 31, 2011 |
| Members of Supervisory Council (from May 10.2010 resolution nr6-12/58076) | Guntars Stekjanis – Chairman of Supervisory Council KURZEMES ATSLEGA 1", JSC, economist; Modris Moisejs-Member of Supervisory Council, "Kurzemes Atslega 1" JSC, Manager of the Electroplating Shop, Technologic-Mehanic Janis Valkašs - Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Valdis Biķis – KURZEMES ATSLEGA 1", Member of Supervisory Council, Technical consultant, Technologic-mechanik Irena Burve - Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Accountant |
| Members of Board (from May 14,2009 | Andris Taurins – Member of Board, "Kurzemes Atslega 1", JSC, chief engineer, Technologic – Mechanic Aldis Ozols , Member of Board, "Kurzemes Atslega 1" JSC, production manager, Technologic – Mechanic |
| Chairman of Board from May 14, 2009(resolution nr 6-12/68528) | Peteris Fridenbergs |
| Auditor | Aivars Rutkis Certificante No 18 |

2. Managerial report

The action type of the Joint Stock Company “KURZEMES ATSLEGA 1” has not changed in comparison with previous periods of time: door locks, ironware, furniture fittings, forged products, production tools, services of galvanization provided etc. are still being produced.

The fixed capital of the JSC “KURZEMES ATSLEGA 1” is 918144 LVL, net turnover has reached 1584834 LVL, profit 11624 LVL, revenue per share 0,013 LVL.

Net turnover in 2011 is up by 22.3% in comparison with 2010.

Volume of sold production divides as follows:

- sold in local market (Latvia) – 64.4%,
- export – 35.6 %

Average number of employees was 107, average salary 293 LVL in 2011.

Average number of employees was 102, average salary 287 LVL in 2010.

In comparison with corresponding period of previous period, average salary is up by 2.1%.

The Company has no tax and other arrears due to state and municipal budget.

Financial activity of the Company has provided mainly with its own assets, is linked to the line of credit in amount of 70000 EUR.

Significant events after the accounting period.

During the period after accounting report till it's signing no significant events has occurred, what could influence the financial situation fixed in financial report of the enterprise.

Financial risk management

To ensure financial risk management JSC “KURZEMES ATSLEGA 1” follows-up the liquidity, regularly controls the cash flow of the enterprise. Active work with collection of fiscal debts is being provided. Financial resources – credit is being attracted.

JSC “KURZEMES ATSLEGA 1” policy for 2012

1. To work on expanding the assortment of production, paying more attention to special orders and production of different metal parts in small batches.
2. To look for possibilities to attract EU funds for enterprise modernization.
3. To increase the wages by 4%.

The Board suggests to shift the profit for a further development of the Company.

The Board of AS “KURZEMES ATSLEGA 1”:

| | |
|-----------------------|---------------------|
| Chairman of the Board | Peteris Fridenbergs |
|-----------------------|---------------------|

| | |
|---------------------|----------------|
| Member of the Board | Andris Tauriņš |
|---------------------|----------------|

| | |
|---------------------|-------------|
| Member of the Board | Aldis Ozols |
|---------------------|-------------|

March 22, 2012

Aizpute

Statement of responsibility of direction.

Non-audited report of 2011 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/losses.

Responsibility for non-audited annual report of year 2011 bears the Board of joint stock company "KURZEMES ATSLEGA 1".

The Board of AS "KURZEMES ATSLEGA 1":

| | |
|-----------------------|---------------------|
| Chairman of the Board | Peteris Fridenbergs |
|-----------------------|---------------------|

| | |
|---------------------|----------------|
| Member of the Board | Andris Tauriņš |
|---------------------|----------------|

| | |
|---------------------|-------------|
| Member of the Board | Aldis Ozols |
|---------------------|-------------|

2.2.PROFIT AND LOSS ACCOUNT

December 31, 2011

| Item | note | 31.12.2011. | 31.12.2011. | 31.12.2010. | 31.12.2010 |
|--|------|--------------|--------------|---------------|---------------|
| | Nr. | LVL | EUR | LVL | EUR |
| Net sales | 1 | 1584834 | 2255016 | 1296107 | 1844194 |
| Cost of sales | 2 | 1434571 | 2041211 | 1163101 | 1654944 |
| Gross profit | | 150263 | 213805 | 133006 | 189250 |
| Distribution expenses | 3 | 45397 | 64594 | 51003 | 72571 |
| Administration expenses | 4 | 112130 | 159547 | 109144 | 155298 |
| Other operating income | 5 | 48241 | 68641 | 41097 | 58476 |
| Other operating expenses | 6 | 32418 | 46127 | 22643 | 32218 |
| Operating profit | | 8559 | 12178 | -8687 | -12360 |
| Income from other interest and similar incomes | | 4 | 6 | 41 | 58 |
| Interest paid and similar expense | 7 | 1773 | 2523 | 1870 | 2661 |
| Profit before tax | | 6790 | 9661 | -10516 | -14963 |
| Deferred tax income | | 9762 | 13890 | -5438 | -7738 |
| Other taxes | | -4928 | -7012 | -4950 | -7043 |
| Net profit for the year | | 11624 | 16539 | -20904 | -29744 |

The accompanying notes on pages 17.-19. are an integral part of these financial statements

Profit per share 31.12.2011. 0.013 LVL , 0.018 EUR

Loss per stock 31.12.2010. 0.02LVL , 0.03EUR

The Board of AS "KURZEMES ATSLEGA 1":

Chairman of the Board Peteris Fridenbergs

Member of the Board Andris Tauriņš

Member of the Board Aldis Ozols

2.1.BALANCE SHEET

| ASSETS 1 | Appendices | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010 LVL | 31.12.2010 EUR |
|--|------------|--------------------|--------------------|-------------------|-------------------|
| 1.LONG TERM INVESTMENT | | | | | |
| 1.Development expenses | | 20000 | 28457 | 30000 | 42686 |
| 2..Concessions, patents, licenses | | 652 | 928 | 1308 | 1861 |
| Total | 1 | 20652 | 29385 | 31308 | 44547 |
| I. Intangible fixed assets | | | | | |
| II. Fixed assets | | | | | |
| 1. Land, building. | 4 | 384660 | 547322 | 394581 | 561438 |
| 2.Equipment and machinery | | 116834 | 166240 | 140612 | 200073 |
| 3.Other fixed assets | | 27923 | 39731 | 36017 | 51248 |
| 4.Fixed assets development costs | | 33369 | 47480 | 28478 | 40521 |
| 5.Prepayment for fixed assets | | | | | |
| II Total fixed assets | 3 | 562786 | 800773 | 599688 | 853279 |
| 1.Total LONG TERM INVESTMENT | | 583438 | 830158 | 630996 | 897826 |
| 2.CURRENT ASSETS | | | | | |
| 1.Inventories | | | | | |
| 1.Raw materials | | 311309 | 442953 | 291645 | 414973 |
| 2.Work in progress | | 178398 | 253837 | 153152 | 217916 |
| 3.Finished goods and goods for sale | | 104360 | 148492 | 107202 | 152535 |
| 5.Advance payment for goods | 5 | 48945 | 69642 | 18379 | 26151 |
| I. Total inventories | | 643012 | 914924 | 570378 | 811575 |
| II. Debtors | | | | | |
| 1.Trade debtors | 6 | 127254 | 181066 | 121463 | 172826 |
| 4.Other debtors | 7 | 7004 | 9966 | 7167 | 10198 |
| 7.Deferred expenses | 8 | 209 | 297 | 194 | 276 |
| II. Total debtors | | 134467 | 191329 | 128824 | 183300 |
| III. Securities and capital participation | | | | | |
| IV . Cash | 9 | 25458 | 36223 | 34978 | 49769 |
| 2.Total current assets | | 802937 | 1142476 | 734180 | 1044644 |
| | | | | | |
| Total assets | | 1386375 | 1972634 | 1365176 | 1942470 |
| | | | | | |
| | | | | | |

| LIABILITIES 1 | Appendices | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.10. LVL | 31.12.10 EUR |
|---|------------|--------------------|--------------------|------------------|-----------------|
| 1.CAPITAL | | | | | |
| 1.Share capital | 10 | 918144 | 1306401 | 918144 | 1306401 |
| 3.Revaluation reserve | 11 | 15597 | 22193 | 15597 | 22193 |
| 5.Retained profit | | | | | |
| a) previous years retained profit | | 208542 | 296729 | 229446 | 326472 |
| current year profit | | 11624 | 16539 | -20904 | -29744 |
| 1Total Capital and reserves | | 1153907 | 1641861 | 1142283 | 1625322 |
| 2.PROVISIONS | 12 | 23817 | 33889 | 19246 | 27385 |
| Total PROVISIONS | | 23817 | 33889 | 19246 | 27385 |
| 3.CREDITORS | | | | | |
| 1.Long term creditors | | | | | |
| Deferred tax | 13 | 50516 | 71878 | 60278 | 85768 |
| 1.Total long term creditors | | 50516 | 71878 | 60278 | 85768 |
| 2.Short-term creditors | | | | | |
| 3. Other loans | 14 | 0 | 0 | 9173 | 13052 |
| 4. Bank loan | 15 | 8103 | 11530 | 28180 | 40097 |
| 5.Advances received from customers | | 10014 | 14248 | 2803 | 3988 |
| 6.Trade creditors | | 81657 | 116187 | 35708 | 50808 |
| 8.Amounts payable to associated companies | 16 | 13921 | 19808 | 17534 | 24949 |
| 10.Taxes and social security payments | 17 | 17333 | 24663 | 17970 | 25569 |
| 11.Other creditors | 18 | 19044 | 27097 | 19784 | 28150 |
| Deferred income | 19 | 0 | 0 | 3727 | 5303 |
| Accrued liabilities | 20 | 8063 | 11473 | 8490 | 12080 |
| 2. Total short-term creditors | | 158135 | 225006 | 143369 | 203996 |
| Total creditors | | 208651 | 296884 | 203647 | 289764 |
| | | | | | |
| Total liabilities | | 1386375 | 1972634 | 1365176 | 1942470 |

31.12.2011,31.12.2010 1EUR=0.702804 LVL

The accompanying notes on pages 12.-31.are an integral part of these financial statements

2.3.Cash flow statement December 31, 2011

(Cash flow statement, prepared using indirect method)

| Indices | Appen dices | 31.12.11. | 31.12.11. | 31.12.10. | 31.12.10 |
|---|----------------|--------------|--------------|--------------|--------------|
| | | LVL | EUR | LVL | EUR |
| 2 | 1. | | | 3. | 4 |
| I. Operation activities | | | | | |
| I. | | | | | |
| 1. Profit or loss before extraordinary items and taxes. | | 6790 | 9661 | -10516 | -14963 |
| Corrections: | | | | | |
| a) Wear and tear of fixed assets; | | 55261 | 78629 | 57204 | 81394 |
| b) Value cancellation if long-term investments; | | 10656 | 15162 | 10649 | 15152 |
| c) Formation of reserves (except the reserves for unreliable debt); | | 4571 | 6505 | -2696 | -3836 |
| d) Profit or loss from fluctuation of foreign currency exchange rate; | | -4306 | -6127 | -5458 | -7766 |
| e) Interest received | | -4 | -6 | -41 | -58 |
| f) Proceeds from partnership in capital of subsidiary company and associated enterprises | | 1679 | 2389 | 1870 | 2661 |
| g) Proceeds from no securities and loans, that have been made long-term investment | | 0 | 0 | 0 | 0 |
| h) The rest of incomes and similar incomes | | | | | |
| i) Long-term financial investment and cancellation of value short-term securities | | | | | |
| j) Interest payments and similar expenses | | 0 | 0 | 0 | 0 |
| k) income from sale of fixed assets | | 0 | 0 | 0 | 0 |
| 2. Profit or loss before corrections of effects of changes of current assets and short-term liabilities | | 74647 | 10613 | 51012 | 72584 |
| Adjustments: | | | | | |
| a) Increase or decrease of residues of debts of debtors; | | -5643 | -8029 | -16437 | -23388 |
| b) Increase or decrease of residues of resources; | | -72634 | -103349 | -25528 | -36323 |
| c) Increase or decrease of remains of debts to be paid to suppliers, contractors and other creditors. | | 44016 | 62629 | 16110 | 22922 |
| 3. The gross cash flow of basic activity. | | 40386 | 57464 | 25157 | 35795 |
| 4. Expenses for interests payments. | | -1679 | -2389 | -1870 | -2661 |
| 5. Expenses for payments of enterprise income tax | | -4928 | -7012 | -4950 | -7043 |
| 6. Expenses for fixed asset tax payments | | | | | |
| 7. Cash flow before extraordinary items. | | 33779 | 48063 | 18337 | 26091 |
| 8. Cash flow from extraordinary items. | | | | | |
| 8. The net cash flow of basic activity | | 33779 | 48063 | 18337 | 26091 |

| 1. | 2. | | | 3 | 4 |
|--|----|---------------|---------------|---------------|---------------|
| 0 | 0 | | | | 0 |
| II. Investing activities | | | | | |
| 1. Purchase of shares or parts of related or associated enterprises. | | | | | |
| | | -18059 | -25696 | -23921 | -34037 |
| 3. Purchase of fixed assets and nonmaterial investments | | | | | |
| 3. Interest received | | | | | |
| | | 4 | 6 | 41 | 58 |
| 4 income from sale of fixed assets | | | | | |
| | | | | 0 | 0 |
| 9. Net cash flow used in investing activities | | | | | |
| | | -18055 | -25690 | -23880 | -33978 |
| III. Financing activities | | | | | |
| 1. | 2. | | | 3 | 4 |
| 2. Loans received | | | | | |
| | | | | 13652 | 19425 |
| 3. Financial aids, pump-priming, presents or donations received | | | | | |
| | | | | 0 | 0 |
| 4. Expenses for repayment of loans | | | | | |
| | | -29550 | -42046 | 0 | 0 |
| 6. Dividends paid | | | | | |
| | | | | 0 | 0 |
| 7. Changes of reserves | | | | | |
| | | | | 0 | 0 |
| 7. Net cash flow of financing activity | | | | | |
| | | -29550 | -42046 | 13652 | 19425 |
| IV. The result of exchange rate fluctuations of foreign currency. | | | | | |
| | | 4306 | 6127 | 5458 | 7766 |
| V. The net cash flow of year of account | | | | | |
| | | -9520 | -13546 | 13567 | 19304 |
| VI. The reminder of currency and its equivalents at the beginning of year of account. | | | | | |
| | | 34978 | 49769 | 21411 | 30465 |
| VII. The reminder of currency and its equivalents at the end of year of account. | | | | | |
| | | 25458 | 36223 | 34978 | 49769 |

2.5 STATEMENT OF CHANGES IN EQUITY

Year 2011

(LVL)

| | Share capital | Revaluation reserve | Year of account retained profit | Prior period retained profit | Total |
|-----------------------------------|---------------|---------------------|---------------------------------|------------------------------|---------|
| AS of 31 December 2009 LVL | 918144 | 15597 | | 229446 | 1163187 |
| Current year loss | 0 | 0 | -20904 | 0 | -20904 |
| As of 31 December 2010 LVL | 918144 | 15597 | -20904 | 229446 | 1142283 |
| Correction for deferred tax | 0 | 0 | 0 | 0 | 0 |
| Year 2010 of account loss | 0 | 0 | 20904 | -20904 | 0 |
| Current year profit | 0 | 0 | 11624 | 0 | 11624 |
| As of 31.december 2011 LVL | 918144 | 15597 | 11624 | 208542 | 1153907 |

(EUR)

| | Share capital | Revaluation reserve | Year of account retained profit | Prior period retained profit | Total |
|-----------------------------------|---------------|---------------------|---------------------------------|------------------------------|---------|
| AS of 31 December 2009LVL | 1306401 | 22193 | | 326472 | 1655066 |
| Current year loss | 0 | 0 | -29744 | 0 | -29744 |
| As of 31 December 2010 LVL | 1306401 | 22193 | -29744 | 326472 | 1625322 |
| Correction for deferred tax | 0 | 0 | 0 | 0 | 0 |
| Year 2010 of account loss | 0 | 0 | 29744 | -29744 | 0 |
| | 0 | 0 | 16539 | 0 | 16539 |
| As of 31.december 2011 LVL | 1306401 | 22193 | 16539 | 296728 | 1641861 |

2.5. Appendices to the Financial statements 2011-2010

Accounting policy

.I. General principles

1. The financial report has been prepared according to law "On the Annual Accounts of Undertaking", other normative documents.

2. Profit or loss account has been prepared according to scheme of vertical outline and classification by method of turnover costs.

3. Cash flow statement has been prepared according to indirect method.

4. In comparison to the previous reporting year the applied accounting and appreciation methods are not changed

5. Accounting in the company is done in Latvian lats. All dealings in foreign currencies are converted into Latvian lats, using the currency rates officially determined by the Bank of Latvia at the day of corresponding deal.

All foreign cash means at the end of the report period are evaluated accordingly the exchange rate of the Latvian bank on the last day of the report period.

| | 31.12.2011. | 31.12.2010 |
|-----|-------------|------------|
| USD | 0.544 | 0.535 |
| EUR | 0.702804 | 0.702804 |
| LTL | 0.204 | 0.203 |

II. Earning recognition and net turnover

5. Net turnover is the total value of finished production and goods for sale as well as services provided without discounts and VAT during the year.

6. Other earnings are recognized at the moment of their origin or at the moment when legal rights on such earnings arise.

6.1. Other interest receivable and similar income is income that is not directly from the economic activity.

7. Financing from funds ERAF 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". is transferred to incomes during amortization.

III. Fixed assets

8. All fixed assets originally estimated at the purchase value, excluding depreciation
9. Depreciation are calculated linear, accordingly confirmed parameters, using the following rates determined by administration:

| | (% year) |
|--------------------------|----------|
| Building, construction | 2 |
| Transmission equipment | 5 |
| Non industrial buildings | 2 |
| Technological equipment | 10 |
| The power equipment | 14.3 |
| Computers | 20 |
| Transport | 14.3 |
| Instrument | 20 |
| Inventory | 10 |

IV. Debts of debtors

10. The debts of debtors in the balance presented in net value, deducting special reserve for debts of doubtful and hopeless debtors from the initial cost. Special reserves for debts of doubtful and hopeless debtors are made, when the administration suggests that the retrieval of these specially marked debts of debtors is doubtful

V. Financial leasing

11. Such fixed assets as vehicles and technological equipment that have been purchased on financial lease involving the take-over of the related risks, have been booked according to their non-lease sales price. Lease interest and similar payments have been included in the profit or loss account of the year they have come into existence.

VI Inventory.

12. All values of raw are evaluated accordingly their purchasing prices. Production in progress is evaluated accordingly the standard production costs. The finished goods are evaluated accordingly standard production costs. For calculation of stock value the average weight method is used (FIFO method.) The valuation of inventories in financial accountancy is being done using continuous inventory method

VII Provisions

16. Provisions for the liabilities have been made to cover the expenses of non-used holidays. These provisions for such liabilities have been represented according to their estimated value - as provisions for they are prospective by nature and they refer to the reporting year as well as to the previous years while the date of payment of such liabilities is not known at the time of reporting

General notices.(LVL)

| | 2011.LVL | 2011.EUR | 2010 LVL | 2010 EUR |
|---|----------|----------|----------|----------|
| The average annual number of employees | 107 | | 102 | |
| Personnel expenses Total | 466088 | 663183 | 434145 | 617732 |
| - wages | 376860 | 536223 | 350677 | 498968 |
| social insurance | 89228 | 126960 | 83468 | 118764 |
| - inter alia | | | | |
| Production personnel | | | | |
| - wages | 279246 | 397332 | 258113 | 367262 |
| social insurance | 66009 | 93922 | 61575 | 87613 |
| Total | 345255 | 491254 | 319688 | 454875 |
| The personnel of administration | | | | |
| - wages | 84416 | 120113 | 80686 | 114806 |
| social insurance | 20072 | 28560 | 19068 | 27131 |
| Total | 104488 | 148673 | 99754 | 141937 |
| i.a. Compensation of board | | | | |
| - compensation | 8068 | 11480 | 8078 | 11494 |
| - social insurance | 1943 | 2765 | 2673 | 3803 |
| Total | 10011 | 14245 | 10751 | 15297 |
| Compensation of Supervisory Council | | | | |
| - compensation | 6240 | 8879 | 5939 | 8450 |
| - social insurance | 1371 | 1951 | 1725 | 2454 |
| Total | 7611 | 10830 | 7664 | 10904 |
| The personnel of sales | | | | |
| - compensation | 9840 | 14001 | 8902 | 12666 |
| - social insurance | 2338 | 3327 | 2108 | 2999 |
| Total | 12178 | 17328 | 11010 | 15665 |
| The personal for social sphere | | | | |
| - compensation | 3358 | 4778 | 2976 | 4234 |
| - social insurance | 809 | 1151 | 717 | 1020 |
| Total | 4167 | 5929 | 3693 | 5254 |

Appendices for profit and loss account**1.Net sales**

| Modus operandi | 31.12.2011 LVL | 31.12.2011 EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|--|-------------------|-------------------|--------------------|--------------------|
| Incomings from production of locks and ironmongery | 1541304 | 2193078 | 1265743 | 1800990 |
| Incomings from rendering of services | 43530 | 61938 | 30364 | 43204 |
| Total: | 1584834 | 2255016 | 1296107 | 1844194 |

The distribution of net sales by countries

| | | <i>sales proceeds</i> | | <i>sales proceeds</i> | |
|---|------------|-----------------------|------------------------|-----------------------|-----------------------|
| | | 2011.g.(Thousand LVL) | 2010.g. (Thousand LVL) | 2011.g.(Thousand EUR) | 2010.g.(Thousand EUR) |
| 1 | Latvia | 1020.4 | 782.6 | 1452 | 1113.5 |
| 2 | Lithuania | 278.7 | 277.2 | 396 | 394.4 |
| 3 | Estonia | 74.9 | 81.9 | 106 | 116.5 |
| 4 | Uzbekistan | 102 | 64.9 | 145 | 92.3 |
| 5 | Ukraine | 8.2 | 30.7 | 12 | 43.7 |
| 6 | Russia | 27.1 | 21.6 | 39 | 30.7 |
| 7 | Beliza | 60.1 | 24.8 | 86 | 35.3 |
| 8 | Germany | 10.8 | 11.4 | 15 | 16.2 |
| 9 | Finland | 2.6 | 1.0 | 4 | 1.4 |
| | Total: | 1584.8 | 1296.1 | 2255 | 1844.2 |

2. Production costs of sales.

| The main elements of expenses | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|--|--------------------|--------------------|--------------------|--------------------|
| Material costs | 861870 | 1226331 | 655633 | 947111 |
| Wages | 276192 | 392986 | 258113 | 367262 |
| Obligatory payments of the state social insurance | 66009 | 93922 | 61575 | 87613 |
| Electrical energy | 66856 | 95128 | 62024 | 88252 |
| Costs of depreciation of fixed | 65917 | 93791 | 67853 | 96546 |
| The rest of expenses | 148093 | 210717 | 87911 | 125086 |
| Expenses in total | 1484937 | 2112875 | 1203109 | 1711870 |
| Correction of expenses | | | | |
| Changes of remains of unfinished production | -25247 | -35923 | -1412 | -2009 |
| Changes of remains of self-made punches, molds and materials | -14996 | -21337 | -26308 | -37433 |
| Changes of remains of complete product | 3218 | 4579 | -11010 | -15666 |
| Changes of remains self-made fixed assets | -13341 | -18983 | -1278 | -1818 |
| Total | 1434571 | 2041211 | 1163101 | 1654944 |

3. Distribution expenses

| The main elements of expenses | 31.12.2011. LVL | 31.12.2011 . EUR | 31.12.2010 LVL | 31.12.2010 EUR |
|--------------------------------------|--------------------|---------------------|-------------------|-------------------|
| Wages | 9840 | 14001 | 8902 | 12666 |
| Social expenses | 2338 | 3326 | 2108 | 2999 |
| The rest of expenses | 806 | 1147 | 7790 | 11085 |
| Marketing Services | 32413 | 46120 | 32203 | 45821 |
| Total | 45397 | 64594 | 51003 | 72571 |

4. Administration expenses.

| The main elements of expenses | 31.12.2011. LVL | 31.12.2011 . EUR | 31.12.2010 LVL | 31.12.2010 EUR |
|--------------------------------------|--------------------|---------------------|-------------------|-------------------|
| Wages | 84416 | 120113 | 80686 | 114806 |
| Social expenses | 20072 | 28560 | 19068 | 27131 |
| The rest of expenses | 6642 | 9451 | 8390 | 11938 |
| Provisions | 1000 | 1423 | 1000 | 1423 |
| Total | 112130 | 159547 | 109144 | 155298 |

5. The rest of incomes for economic activity

| Sort of revenue | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|---|--------------------|--------------------|--------------------|--------------------|
| Sales of current assets | 34756 | 49453 | 14380 | 20462 |
| Incomes from exchange rate fluctuations | 4306 | 6127 | 5456 | 7763 |
| The rest of incomes | 3726 | 5302 | 6778 | 9644 |
| Others income | 5453 | 7759 | 14483 | 20607 |
| Total | 48241 | 68641 | 41097 | 58476 |

6. The rest of expenses for economic activity of enterprise.

| | 31.12.2011 LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|---|-------------------|--------------------|--------------------|--------------------|
| Expenses for social sphere | 4167 | 5929 | 3693 | 5254 |
| Expenses, unrelated with economic activity, donations | 535 | 761 | 957 | 1362 |
| Revaluation reserve | | | | |
| harm recompense | 12215 | 17380 | 13257 | 18863 |
| Other expenses | 15501 | 22057 | 4736 | 6739 |
| Total | 32418 | 46127 | 22643 | 32218 |

7. Interest, interest cover

| | 31.12.2011 LVL | 31.12.2011 EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|----------------|-------------------|-------------------|--------------------|--------------------|
| interest | 1679 | 2389 | 1383 | 1968 |
| interest cover | 94 | 134 | 487 | 693 |
| Total | 1773 | 2523 | 1870 | 2661 |

Appendices to balance sheet..**1. Intangible fixed assets. (LVL)**

| | Intangible fixed assets LVL | Development expenses LVL | Total |
|--------------------------------|--------------------------------|--------------------------------|-------|
| Purchases prices 31.12.2010 | 3956 | 50000 | 53956 |
| Liquidation | | | |
| 31.12.2011 | 3956 | 50000 | 53956 |
| Deprecations. | 2648 | 20000 | 22648 |
| Purchase calculated | 656 | 10000 | 10656 |
| Deprecations. 31.12.2011 | 3304 | 30000 | 33304 |
| Balance cost 31.12.2010 | 1308 | 30000 | 31308 |
| balance cost 31.12.2011 | 652 | 20000 | 20652 |

Intangible fixed assets. (EUR)

| | Intangible fixed assets EUR | .Development expenses EUR | Total |
|--------------------------------|--------------------------------|---------------------------------|-------|
| Purchases prices 31.12.2010 | 5629 | 71143 | 76772 |
| Liquidation | 0 | 0 | 0 |
| 31.12.2011 | 5629 | 71143 | 76772 |
| Deprecations. 31.12.2010 | 3767 | 28458 | 32225 |
| calculated | 933 | 14229 | 15162 |
| Deprecations. 31.12.2011 | 4700 | 42687 | 47387 |
| Balance cost 31.12.2010 | 1861 | 42686 | 44547 |
| balance cost 31.12.2011 | 928 | 28457 | 29385 |

2. Fixed asset liquidation

| | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Fixed asset acquisition value | 40978 | 58306 | 0 | 0 |
| Accumulated depreciation | 40765 | 58003 | 0 | 0 |
| Loss from liquidation of fixed assets | 213 | 303 | 0 | 0 |

3. Fixed assets (LVL)

| | plots, buildings | Technolo gical equipme nt | The rest capital assets | origination of capital assets | Advance payment. | Total |
|--|---------------------|------------------------------------|-------------------------------|-------------------------------------|---------------------|---------|
| Balance SHEET value 31.12.2010.LVL | 673963 | 783555 | 127050 | 28478 | 0 | 1613046 |
| to put into operation | 0 | 7921 | 5546 | 4891 | 0 | 18358 |
| Purchase prices 31.12.2011. | 673963 | 791476 | 132596 | 33369 | | 1631404 |
| Deprecation 31.12.2010. | 279382 | 642942 | 91033 | 0 | 0 | 1013358 |
| Calculated | 9921 | 31700 | 13640 | 0 | 0 | 55261 |
| correction | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation 31.12.2011. | 289303 | 674642 | 104673 | 0 | 0 | 1068618 |
| Balance sheet value 31.12.2010 | 394581 | 140612 | 36017 | 28478 | 0 | 599688 |
| Balance sheet value 31.12.2011. | 384660 | 116834 | 27923 | 33369 | 0 | 562786 |

Fixed assets (EUR)

| | plots, buildings | Technolo gical equipme nt | The rest capital assets | origination of capital assets | Advance payment. | Total |
|---------------------------------------|---------------------|------------------------------------|-------------------------------|-------------------------------------|---------------------|---------|
| Balance SHEET value 31.12.2010. | 958963 | 1114898 | 180776 | 40521 | 0 | 2295158 |
| to put into operation | | 11271 | 7891 | 6959 | 0 | 26121 |
| Purchase prices 31.12.2011. | 958963 | 1126169 | 188667 | 47480 | 0 | 2321279 |
| Deprecation 31.12.2010 | 397525 | 914824 | 129528 | 0 | 0 | 1441879 |
| Calculated | 14116 | 45105 | 19408 | 0 | 0 | 78629 |
| correction | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation 31.12.2011. | 411641 | 959929 | 148936 | 0 | 0 | 1520506 |
| Balance sheet value 31.12.2010. | 561438 | 200073 | 51248 | 40521 | 0 | 853279 |
| Balance sheet value 31.12.2011. | 547322 | 166240 | 39731 | 47480 | 0 | 800773 |

4. Cadastre value of the buildings

| Property | Cadastre No. | Cadastre value LVL | Cadastre value EUR | balance sheet value LVL | balance sheet value EUR |
|--|----------------|--------------------|--------------------|-------------------------|-------------------------|
| Coal – woodchip place-shed | 64050100122011 | 1664 | 2368 | 3973 | 5653 |
| Joinery building | 64050100122012 | 5899 | 8394 | 8373 | 11914 |
| Lean -garage | 64050100122008 | 6374 | 9069 | 6064 | 8628 |
| Production building No.2 | 64050100122002 | 12743 | 18132 | 4817 | 6854 |
| Engineering-technical building | 64050100122003 | 5668 | 8065 | 1654 | 2353 |
| Building of Grinding shop, Electroplating shop and Clubhouse | 64050100122005 | 30851 | 43897 | 19998 | 28455 |
| Repair shop | 64050100122006 | 17784 | 25304 | 12534 | 17834 |
| Storehouse of electrolytic components | 64050100122007 | 32160 | 45760 | 3260 | 4639 |
| Boiler house | 64050100122010 | 13174 | 18745 | 34600 | 49231 |
| Aid post of factory | 64050100122013 | 5756 | 8190 | 3245 | 4617 |
| Warehouse | 64020100122014 | 24951 | 35502 | 8572 | 12197 |
| Warehouse | 64050100122015 | 8175 | 11632 | 263 | 374 |
| The main production building with compressor substation | 64050100122016 | 121662 | 173109 | 189967 | 270299 |
| Office building | 64050100122017 | 23440 | 33352 | 8819 | 12548 |
| Neutralization building | 64050100122018 | 2282 | 3247 | 9639 | 13715 |
| Gatehouse | 64050100122019 | 234 | 333 | 0 | 0 |
| Sawmill building | 64050100122020 | 5401 | 7685 | 1901 | 2705 |
| Transformer substation | 64050100220021 | 1357 | 1931 | 1275 | 1814 |
| Plot., Zingberga street 1, Aizpute 5621 m2 | 64050100008 | 3817 | 5431 | 3100 | 4411 |
| Plot., Kalvenes street 27,42694 m2 (93/100) | 64050100122 | 11999 | 17073 | 13714 | 19513 |
| Garage-outhouse | 64050100122009 | 1681 | 2392 | 1790 | 2547 |
| Total | | 337072 | 479610 | 337558 | 480301 |

5. Advance payment for goods.

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| Latvija Statoil SIA | 565 | 804 | 518 | 737 |
| Wuxi GMB intern.Corporation | 47200 | 67160 | 14964 | 21292 |
| Champion Fastener Limited | 985 | 1401 | 2527 | 3596 |
| Other | 195 | 277 | 370 | 526 |
| Total | 48945 | 69642 | 18379 | 26151 |

6. Trade debtors

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|-----------------------------------|-----------------|--------------------|--------------------|--------------------|
| Trade debtors accounting value | 145079 | 206429 | 126616 | 180158 |
| Provisions doubtful debt | 17825 | 25363 | 5153 | 7332 |
| Trade debtors net value | 127254 | 181066 | 121463 | 172826 |

Change in provision for doubtful receivables

| | Trade debtors(LVL) | Trade debtors EUR) |
|-----------------------|--------------------|--------------------|
| Provisions 31.12.2010 | 5300 | 7541 |
| Provisions decrease | 0 | 0 |
| provisions increase | 12525 | 17822 |
| Provisions 31.12.2011 | 17825 | 25363 |

7. Other debtors .

| Item | 31.12.11. LVL | 31.12.11. EUR | 31.12.10. LVL | 31.12.10. EUR |
|--------------------------|------------------|------------------|------------------|------------------|
| The overpaid taxes | 96 | 137 | 0 | 0 |
| Personnel debts | 163 | 232 | 405 | 576 |
| Public utilities payment | 3365 | 4788 | 6200 | 8822 |
| Other debts | 3380 | 4809 | 562 | 799 |
| Total | 7004 | 9966 | 7167 | 10197 |

8. Deferred expenses.

| | 31.12.11. LVL | 31.12.11. EUR | 31.12.10. LVL | 31.12.10. EUR |
|--------------|------------------|------------------|------------------|------------------|
| subscription | 209 | 297 | 194 | 276 |
| Total | 209 | 297 | 194 | 276 |

9. Money resources

| | 31.12.11. LVL | 31.12.11. EUR | 31.12.10. LVL | 31.12.10. EUR |
|------------------------------------|------------------|------------------|------------------|------------------|
| Money resources in cash department | 872 | 1241 | 612 | 871 |
| Money resources in bank | 24586 | 34982 | 34366 | 48898 |
| Total | 25458 | 36223 | 34978 | 49769 |

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

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

48.36% (443976 equates)of share capital belongs to A/S "KURZEMES ATSLEGA ", reg.40003253124.

13.4% - 123432 of share capital belongs to SCI AG, Usingen

9.5 % (87199 equates)of share capital belongs to Rolands Livmanis

11. Long-term investment revaluation reserve.

| Item | Long-term investment revaluation reserve (LVL) | Long-term investment revaluation reserve (EUR) |
|--------------------|--|--|
| Balance 31.12.2010 | 15597 | 22193 |
| increase | 0 | 0 |
| decrease | 0 | 0 |
| Balance 31.12.2011 | 15597 | 22193 |

12. PROVISIONS

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| Provisions for not used holiday | 23817 | 33889 | 19246 | 27385 |
| Total | 23817 | 33889 | 19246 | 27385 |

13. Deferred tax liabilities

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|--|--------------------|--------------------|--------------------|--------------------|
| Deferred tax liabilities | 60278 | 85768 | 54840 | 78030 |
| Incomes of reduction Deferred tax liabilities | 9762 | 13890 | 5438 | 7738 |
| Total | 50516 | 71878 | 60278 | 85768 |

14. Other creditors (short term.)

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|-----------------|--------------------|--------------------|--------------------|--------------------|
| Other creditors | 0 | 0 | 9173 | 13052 |
| Total | 0 | 0 | 9173 | 13052 |

15. Bank credit (short term)

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|--------------|--------------------|--------------------|--------------------|--------------------|
| AS DNB BANKA | 8103 | 11530 | 28180 | 40097 |

For the guarantee of increase in a limit of the credit for AS DnB
NORD the commercial mortgage on resources in volume 68875 LVL is given out

16 Liabilities to associated Enterprises short term)

| Item | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|--|--------------------|--------------------|--------------------|--------------------|
| A.S "KURZEMES ATSLĒGA" reģ.nr..40003123254 | 13921 | 19808 | 17534 | 24949 |

17. Movement taxes 2011. LVL

| Kind of taxes | balance 31.12.2010. LVL | calculated 2011.g. LVL | paid s 2011.g, LVL | To direct for other taxes LVL | balance 31.12.2011. LVL |
|--|-------------------------------|------------------------------|--------------------------|--|-------------------------------|
| Obligatory payments of the state social insurance | 10595 | 129969 | 129722 | 0 | 10842 |
| Income tax of inhabitants | 5293 | 53122 | 53918 | 0 | 4497 |
| value added tax | 1913 | 54981 | 54930 | 0 | 1964 |
| real estate tax | 0 | 4928 | 4928 | 0 | 0 |
| Enterprise income tax | 0 | 0 | 0 | 0 | 0 |
| Tax to natural resources | 141 | 549 | 786 | 0 | -96 |
| Business risk fee | 28 | 337 | 335 | 0 | 30 |
| Total | 17970 | 243886 | 244619 | 0 | 17237 |

i.a.

Overpayment taxes 96

Liability taxes 17333

Movement taxes 2011. EUR

| Kind of taxes | balance 31.12.2010. LVL | calculated 2011.g. LVL | paid s 2011.g, LVL | To direct for other taxes LVL | balance 31.12.2011. LVL |
|---|-------------------------------|------------------------------|--------------------------|--|-------------------------------|
| Obligatory payments of the state social insurance | 15075 | 184929 | 184577 | 0 | 15427 |
| Income tax of inhabitants | 7531 | 75586 | 76718 | 0 | 6399 |
| Value added tax | 2722 | 78231 | 78158 | 0 | 2795 |
| real estate tax | 0 | 7012 | 7012 | 0 | 0 |
| Enterprise income tax | 0 | 0 | 0 | 0 | 0 |
| Tax to natural resources | 201 | 781 | 1118 | 0 | -136 |
| Business risk fee | 40 | 480 | 477 | 0 | 43 |
| Total | 25569 | 347019 | 348060 | 0 | 24528 |

Int.al.:

Overpayment taxes 136

Liability taxes 24663

18. The rest of creditors.

| Kind of creditors | 31.12.2011. LVL | 31.12.2011. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| Wages for December | 15831 | 22525 | 16504 | 23483 |
| harm recompense | 985 | 1402 | 1067 | 1518 |
| Deduction from wages | 163 | 232 | 129 | 184 |
| Other creditors | 2065 | 2938 | 2084 | 2965 |
| Total | 19044 | 27097 | 19784 | 28150 |

19. Deferred income

| Item | 31.12.2011. LVL | 31.12.2011 . EUR | 31.12.2010 LVL | 31.12.201. EUR |
|--------------------------------------|--------------------|---------------------|-------------------|-------------------|
| Proceeds of the part of ERDF funding | 0 | 0 | 3727 | 5303 |

21. Accrued liabilities.

| Item | 31.12.2010. LVL | 31.12.2010. EUR | 31.12.2010. LVL | 31.12.2010. EUR |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Expenses of audit of the year 2011 | 600 | 854 | 600 | 854 |
| JSC Latvenergo | 6669 | 9489 | 6807 | 9685 |
| SIA "Aizputes atslēgas" | 700 | 996 | 1000 | 1423 |
| Other | 94 | 134 | 83 | 118 |
| Total | 8063 | 11473 | 8490 | 12080 |

Total remuneration for auditing of the annual accounts of the year 2011 makes 1000 LVL

22. Transactions with associated persons

| Name of the associated person | Materials purchased from associated person in 2011.g.LVL | Materials purchased from associated person in 2011.g.EUR |
|---|--|--|
| JSC "KURZEMES ATSLĒGA" Registration No. 40003123254 | 73766 | 104960 |
| Among it | | |
| Long-term debts to associated enterprise | 0 | 0 |
| Short-term debts to associated enterprise | 0 | 0 |

28. Financial risk management.

The Company's principal financial instruments comprise loans, finance leases, cash. The main purpose of these financial instruments is to ensure financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations.

Financial Risks

The main financial risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk.

Foreign currency risk

The Company's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, trade receivables, trade payables and short-term and long-term borrowings. The Company is mainly exposed to foreign currency risk of USD.

Interest rate risk

The Company is exposed to the interest rate risk mainly through its short-term and long-term borrowings. The Company's policy is to ensure that the majority of its borrowings are at floating and constant rate.

Credit risk

The Company is exposed to credit risk through its trade receivables and cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimized.

Calculation of indices of the Financial results**Liquidity ratio.**

Liquidity – solvency, i.e. ability to extinguish short-term obligations in time and completely.

$$\text{Total ratio of liquidity} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

$$\text{Year 2011 (802937:158135)}= 5.08$$

$$\text{Year 2010 (734180 : 143369)}=5.12$$

Quick ratio =

$$\frac{(\text{Cash} + \text{Marketable securities} + \text{Debtors})}{\text{Current Liabilities}}$$

Year 2011 (25458+134467) : 158135=1.01

Year 2010 (163800 : 143369)=1.14

$$\frac{\text{Absolute liquidity ratio} = (\text{Cash} + \text{Marketable securities})}{\text{Current Liabilities}}$$

Year 2011 (25458:158135)= 0.16

Year 2010 (34978 : 143396)=0.24

Liability ratio.

Calculation of liability or solvency ratios (ability to cover short-term or long-term liabilities):

$$\frac{\text{Liability ratio in balance} = \text{Current Liabilities}}{\text{Balance total}}$$

Year 2011 (208632:1386375)=0.15

Year 2010 (203647:1365176)=0.15

$$\frac{\text{Liability ratio to equity} = \text{Liabilities}}{\text{Equity}}$$

Year 2011 (208632:1153907)=0.18

Year 2010 (203647 : 1142283)=0.18

$$\frac{\text{Equity ratio to total assets} = \text{Equity}}{\text{Assets}}$$

Year 2011 (1153907 : 1386375)= 0.83

Year 2010 (1142283 : 1365176)=0.84

$$\frac{\text{Borrowed funds ratio} = \text{Borrowed funds}}{\text{Equity}}$$

Year 2011 (208632:1153907)= 0.18

Year 2010 (203647 : 1142283)=0.18

Activity ratio.

Stock Turnover ratio = $\frac{\text{Production Costs of sold products}}{\text{Average stock reminder}}$

Year 2011 (1434571 : 606695)= 2.36

Year 2010 (1163101 : 557614)=2.09

Profitability ratios:

Sales profitability (%) = $\frac{\text{Profit (or loss) of}}{\text{Net turnover}} * 100$

Year 2011 (11624x100:1584834)= 0.73%

Year 2010 (-20904 x 100 : 1296107)= -1.61 %

Equity profitability (%) = $\frac{\text{Annual profit} * 100}{\text{Average annual equity}}$

Year 2011 (11624x100:1148105)= 1.01%

Year 2010 (-20904 x 100 : 1152735)= - 1.81%

Chairman of the Board Peteris Fridenbergs

Member of the Board Andris Tauriņš

Member of the Board Aldis Ozols

March 22, 2012