

Joint-Stock Company  
"Liepājas metalurģs "  
Reg.nr. 40003014197

Quarterly Report

For 9 months of the year 2008

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## **Joint-Stock Company "Liepājas Metalurģs" Management Statement Regarding the Financial Statements for 9 months of 2008.**

The Company's Profit from business activities in the reporting period was 8.9 mill. LVL (EUR 12.7 mill.), which was 6.2 million LVL (EUR 8.8 mill.) less than in 9 months of the year 2007.

The Net Turnover in the reporting period was 224.4 million LVL (EUR 319.3 mill.), which was 48.9 million LVL (EUR 69.6 mill.) more than in the first 9 months, 2007.

The Net Turnover in the reporting period in comparison with the 9 months of the year 2007 rose due to the product price increase.

The decrease of profit was primarily related to the fact that the 9-month average price for the sold product increased by 29.6% while the materials prices rose by 34.6% when comparing to the levels in the same period of the previous year.

The Company invested LVL 1.2 million (approx. EUR 1.7 mill.) in its development during the reporting period.

JSC "Liepājas metalurģs" continued the activities concerning the steel melting production practice and related to its modernization program financing.

Chairman of the Board	_____	/V.Terentjevs/
Member of the Board	_____	/I.Segals/
Member of the Board	_____	/L.Ptičkins/

## **Statement Regarding the Management Responsibility.**

The JSC "Liepājas metalurģs" (in this text – the Company) Council and Board are responsible for the preparation of the Company financial statement.

The Financial Statement represents the true picture for the Company financial position as of September 30, 2008 as well as the results of its operations and cash flow for 9 months of the year 2008. 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 management's continuation

In the name of the JSC "Liepājas metalurģs",

Chairman of the Board	_____	/V.Terentjevs/
Member of the Board	_____	/I.Segals/
Member of the Board	_____	/L.Ptičkins/

### INFORMATION ABOUT THE COMPANY

1. Full name of the Company: Joint-Stock Company "Liepājas metalurģs"
2. Legal status of the Company: Public Joint-Stock Company
3. Registration number of the State  
Registration, place, date: 40003014197  
The Republic of Latvia Commercial Register, 07-Aug-2003
4. Taxpayer registration number: 40003014197
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. Year of account: 2008, 9 months
9. Director: Leons Ptičkins  
Position: Managing Director and a Member of the Board
10. Information on the major stockholders: The biggest stockholders are:

Sergejs Zaharjins	
Proportion (%) of stocks (shares)	49%
Iļja Segals	
Proportion (%) of stocks (shares)	20.80%
Kirovs Lipmans	
Proportion (%) of stocks (shares)	17.70%
11. Council: Sergejs Zaharjins  
Aleksejs Zaharjins  
Kirovs Lipmans  
Māris Pomerancis  
Guntis Vilnītis  
Andris Deniņš
12. Members of the Board: Valērijs Terentjevs  
Iļja Segals  
Leons Ptičkins
13. The name of the bank, code, operating  
account number: AS SEB Unibanka  
Konta Nr.LV96UNLA 0012002467028
14. Chief Accountant: Ligita Bērzupe
15. Average number of employees: 2664

### BALANCE SHEET

ASSETS	Enclosure Number	30.09.2008 LVL	30.09.2008 EUR	30.09.2007 LVL	30.09.2007 EUR
<b>I.LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>					
1. Other intangible investments		71057	101105	80666	114777
2. Advance payments for intangible investments		1345	1914	0	0
<b>I. TOTAL:</b>		<b>72402</b>	<b>103019</b>	<b>80666</b>	<b>114777</b>
<b>II. Fixed assets</b>					
1. Land, buildings and constructions and long-term sites		50704924	72146607	25728237	36607983
2. Long-term investments in rented fixed assets		0	0	0	0
3. Technological equipment and machinery		29841819	42461083	19864959	28265290
4. Other fixed assets and inventory		3052678	4343569	2049239	2915804
5. Fixed assets formation and costs of unfinished construction sites		2816958	4008170	4362841	6207763
6. Advance payments for fixed assets		360158	512459	512245	728859
<b>II. TOTAL:</b>		<b>86776537</b>	<b>123471888</b>	<b>52517521</b>	<b>74725700</b>
<b>III. Investment properties</b>					
1. Investment properties		4882333	6946934	3718574	5291054
<b>III. TOTAL:</b>					
<b>IV. Long-term financial investments</b>					
1. Share in the related companies (subsidiaries)		9068906	12903891	5630626	8011659
2. Loans to the related companies (subsidiaries)		42003	59765	2865794	4077657
3. Share in the capital of associated companies		649843	924643	583843	830734
4. Other loans		0	0	120057	170826
<b>IV. TOTAL:</b>	<b>1</b>	<b>9760752</b>	<b>13888299</b>	<b>9200320</b>	<b>13090876</b>
<b>Section 1 total amount:</b>		<b>101492024</b>	<b>144410140</b>	<b>65517081</b>	<b>93222408</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stock (Inventories)</b>					
1. Raw materials, basic and auxiliary materials		14088310	20045859	14540826	20689731
2. Unfinished products, Work-in-Process		1710534	2433871	923151	1313526
3. Finished products and goods for sales		13900040	19777975	14333257	20394387
4. Incompleted orders		300	427	807	1148
5. Advance payments for goods		1794184	2552894	1442246	2052131
<b>I. TOTAL:</b>		<b>31493368</b>	<b>44811026</b>	<b>31240287</b>	<b>44450924</b>
<b>II. Accounts receivable (Debtors)</b>					
1. Trade accounts receivable		21594894	30726766	17264872	24565700
2. Debt of related companies (subsidiaries)		186302	265084	936958	1333171
3. Debt of associated enterprises		28934	41169	60172	85617
4. Other debtors (accounts receivable)		1862683	2650359	3494339	4971996
5. Short-term loans		0	0	0	0
6. Prepaid expenses		136382	194054	34842	49576
<b>II. TOTAL:</b>	<b>2</b>	<b>23809195</b>	<b>33877432</b>	<b>21791183</b>	<b>31006060</b>
<b>III. Short-term financial investments</b>					
<b>III. TOTAL:</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. Cash</b>		1972974	2807289	1512017	2151406
<b>IV. TOTAL:</b>		<b>1972974</b>	<b>2807289</b>	<b>1512017</b>	<b>2151406</b>
<b>Section 2 total amount</b>		<b>57275537</b>	<b>81495747</b>	<b>54543487</b>	<b>77608390</b>
<b>TOTAL ASSETS</b>		<b>158767561</b>	<b>225905887</b>	<b>120060568</b>	<b>170830798</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	30.09.2008 LVL	30.09.2008 EUR	30.09.2007 LVL	30.09.2007 EUR
<b>1. SHAREHOLDERS' EQUITY</b>					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		63094525	89775421	25054698	35649624
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		38393389	54628871	21959004	31244848
<b>3. TOTAL:</b>		<b>38393389</b>	<b>54628871</b>	<b>21959004</b>	<b>31244848</b>
4. Retained earnings a) undistributed profit from the previous years		0	0	0	0
4. Retained earnings b) undistributed profit of the reporting year		8896588	12658704	15073112	21447106
<b>section 1 total amount:</b>		<b>127365535</b>	<b>181224829</b>	<b>79067847</b>	<b>112503411</b>
<b>2. PROVISIONS</b>		0	0	0	0
1. Provisions for anticipated taxes		148242	210929	1411009	2007685
2. Other provisions		5907030	8404946	4893992	6963523
<b>section 2 total amount:</b>	<b>3</b>	<b>6055272</b>	<b>8615876</b>	<b>6305001</b>	<b>8971208</b>
<b>3. LIABILITIES (Accounts Payable)</b>					
I. Long-term Creditors (Accounts Payable).		0	0	0	0
<b>I. TOTAL:</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		3994738	5684000	10782419	15342000
2. Other loans		6794497	9667698	5012665	7132380
3. Advance payments received from customers		1793471	2551879	2759150	3925917
4. Suppliers and contractors trade account payable		9733880	13850063	12580445	17900361
5. Accrued liabilities (Payable bills of exchange)		0	0	0	0
6. Payable (debt) to related companies (subsidiaries)		110602	157372	110247	156867
7. Payable (debt) to associated companies		25071	35673	49571	70533
8. Taxes and state social insurance payments		1659403	2361118	2175964	3096118
9. Other liabilities		1235092	1757378	1217259	1732004
<b>II. TOTAL:</b>		<b>25346754</b>	<b>36065182</b>	<b>34687720</b>	<b>49356179</b>
<b>Section 3 total amount:</b>	<b>4</b>	<b>25346754</b>	<b>36065182</b>	<b>34687720</b>	<b>49356179</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>158767561</b>	<b>225905887</b>	<b>120060568</b>	<b>170830798</b>

Chairman of the Board \_\_\_\_\_

/V.Terentjevs/

Member of the Board \_\_\_\_\_

/I.Segals/

Member of the Board \_\_\_\_\_

/L.Ptičkins/

### PROFIT AND LOSS STATEMENT

No.	Parameter designation	Enclosure Number	At the end of the report period LVL	At the end of the report period EUR	9 months 2007 LVL	9 months 2007 EUR
1	2	3	4	5	6	7
1	Net turnover	5,6	224381175	319265649	175485790	249693784
2	Production costs of goods sold	7	-195800124	-278598477	-144773903	-205994705
3	Gross profit or loss (from turnover)		28581051	40667172	30711887	43699078
4	Sales costs	8	-5537842	-7879639	-4746804	-6754094
5	Administration costs	9	-5932161	-8440705	-6091370	-8667239
6	Other operating income	10	3738245	5319043	1767951	2515568
7	Other operating costs	11	-8899732	-12663178	-3289775	-4680928
8	Interest income and other similar income	12	123669	175965	170080	242002
9	Interest payments and similar expenses		-235496	-335081	-294337	-418804
10	Profit or loss before extraordinary items and taxes		11837734	16843578	18227632	25935584
11	Profit or loss before taxes		11837734	16843578	18227632	25935584
12	Income tax for the reporting period		-2724340	-3876387	-2822820	-4016511
13	Deferred tax		0	0	0	0
14	Other taxes		-216806	-308487	-331700	-471967
15	Reporting period profit or loss after taxes		8896588	12658704	15073112	21447106

The JSC "Liepājas metalurģs" demonstrated profit at the rate of 0.52 per share

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

Chairman of the Board \_\_\_\_\_ /V.Terentjevs/

Member of the Board \_\_\_\_\_ /I.Segals/

Member of the Board \_\_\_\_\_ /L.Ptičkins/

**CASH FLOW STATEMENT**  
**(by direct method)**

	Reporting period		9 months 2007	
	LVL	EUR	LVL	EUR
<b>OPERATING CASH FLOW</b>				
Cash received from buyers	215343301	306405913	166385629	236745421
Cash received from other business activities	471961	671540	1033956	1471187
VAT overpayment received	11000969	15652969	8614318	12257070
Cash paid to suppliers and employees	-214812287	-305650348	-161211823	-229383758
<i>Cash received from the core business activity</i>	<i>12003944</i>	<i>17080074</i>	<i>14822080</i>	<i>21089920</i>
Interest payment	-267723	-380936	-331272	-471358
Corporate income tax payment	-6322	-8995	-12224382	-17393729
Other tax payments	-1185359	-1686614	0	0
<b>Net cash flow from the core business activity</b>	<b>10544540</b>	<b>15003529</b>	<b>2266426</b>	<b>3224834</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Acquisition of fixed assets and intangible assets	-2433001	-3461849	-4615171	-6566797
Sale of fixed assets and intangible assets	3893	5539	83902	119382
Long-term loans for students of JSC "LM"	0	0	0	0
Other loans granted	200	285	0	0
Investments in related or associated companies	-72000	-102447	-12000	-17074
Repayment of loans	0	0	8154	11602
<b>Net cash flow from investment operations</b>	<b>-2500908</b>	<b>-3558471</b>	<b>-4535115</b>	<b>-6452887</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Short-term borrowings in net value (credit line)	-6930450	-9861142	1674079	2382000
Long-term borrowings received from related companies	0	0	0	0
Paid liabilities for financial leasing	0	0	0	0
Loans to associated and related companies	0	0	-22000	-31303
Other long-term loans	0	0	0	0
Other investments (sponsorship)	-1787755	-2543746	-1672009	-2379054
Related companies (subsidiaries) loans (and interests) repayment	23717	33746	115452	164273
<b>Net cash flow from financial activities</b>	<b>-8694488</b>	<b>-12371142</b>	<b>95522</b>	<b>135916</b>
Result of foreign currency exchange rate fluctuations	-93183	-132587	-30905	-43974
Net growth of cash and its equivalents	-744039	-1058672	-2204072	-3136112
Cash and its equivalents at the beginning of accounting period	2717013	3865961	3716089	5287518
<b>Cash and its equivalents at the end of accounting period</b>	<b>1972974</b>	<b>2807289</b>	<b>1512017</b>	<b>2151406</b>

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Revaluation reserve of long-term investments	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous year	Equity capital TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As of 31.12.2006</b>	<b>16981033</b>	<b>25274484</b>	<b>0</b>	<b>12491727</b>	<b>9467277</b>	<b>0</b>	<b>64214521</b>
Previous year profit put in reserves				9467277	-9467277		0
Undistributed profit of the reporting period					16434385		16434385
Reserves distribution							0
Increase of revaluation reserve		38605653					38605653
Written-off revaluation reserve		-470296					-470296
<b>As of 31.12.2007</b>	<b>16981033</b>	<b>63409841</b>	<b>0</b>	<b>21959004</b>	<b>16434385</b>	<b>0</b>	<b>118784263</b>
Previous year profit put in reserves				16434385	-16434385	0	0
Undistributed profit of the reporting period					8896588		8896588
Increase of fixed capital							0
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-315316					-315316
<b>As of 30.09.2008</b>	<b>16981033</b>	<b>63094525</b>	<b>0</b>	<b>38393389</b>	<b>8896588</b>	<b>0</b>	<b>127365535</b>

	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
<b>As of 31.12.2006</b>	<b>24161833</b>	<b>35962351</b>	<b>0</b>	<b>17774126</b>	<b>13470722</b>	<b>0</b>	<b>91369032</b>
Previous year profit put in reserves				13470722	-13470722		0
Undistributed profit of the reporting period					23384023		23384023
Reserves distribution		0					0
Increase of revaluation reserve		54930895					54930895
Written-off revaluation reserve		-669171					-669171
<b>As of 31.12.2007</b>	<b>24161833</b>	<b>90224075</b>	<b>0</b>	<b>31244848</b>	<b>23384023</b>	<b>0</b>	<b>169014779</b>
Previous year profit put in reserves				23384023	-23384023	0	0
Undistributed profit of the reporting period					12658704		12658704
Increase of fixed capital							0
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-448654					-448654
<b>As of 30.09.2008</b>	<b>24161833</b>	<b>89775421</b>	<b>0</b>	<b>54628871</b>	<b>12658704</b>	<b>0</b>	<b>181224829</b>

## ACCOUNTING POLICY

### Basis for Preparation of the Annual Report

The Report is prepared in accordance with the law "On Accounting" and "On Annual Report", as well as with the Latvian Accounting Standards (LAS): 1. LAS, "Financial Statements Preparation Principles", 2. LAS, "Cash Flow Statement", 3. LAS, "Events After the Balance Sheet Date", 4. LAS "Changes in Accounting Policies, Amendments in Accounting Estimates and Prior Period Errors", 5. LAS "Long-term Agreements", 6. LAS "Income", 7. LAS "Fixed Assets", 8. LAS "Provisions, Potential Liabilities and Assets", 9. LAS "Investment Properties", and is also in compliance with the European Union (EU) International Standards on preparation of the Financial Statements. Profit and Loss Statement is prepared using the turnover method. The Cash Flow Statement has been presented, by establishing the cash flow from the core activity by the direct method. As compared to the previous reporting year, the Company's methods used for reporting and valuation have not changed.

### Accounting Principles Applied

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

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

### Use of Estimates

In the preparation of the Financial Statements, the management is obliged to base its opinion on definite estimates and assumptions, which impact the balances of the Balance Sheet and Profit and Loss Account items in the particular statements as well as the possible amount of liabilities. Future events can affect assumptions, based on which the respective estimates are

made. Any impact of changes of estimates is reflected in the financial statement at the date when they are identified.

### **Recognition of Income and Net Turnover (Revenue)**

Net turnover is the total sum of the value of goods sold and of the services rendered during the year net of discounts and value added tax.

Other income is recognized as follows:

- a) Income from rent/lease – on the date it is created;
- b) Income from fines and late payments – at the date of the receipt;

### **Long-Term Intangible Assets and Fixed (Capital) Assets**

Intangible assets and fixed assets are recorded at historical cost or revalue amount net of accumulated depreciation and accumulated impairment losses. Joint-Stock Company capitalizes Fixed Assets, which have a value greater than 500 LVL. These fixed assets are recorded as low value assets. The gradual depreciation/amortization application is not necessary or useful in this case, since it is immaterial in relation to the operating activity performance results. Those costs associated with low value assets are reflected in the Profit and Loss statement. At the moment of acquisition, such assets are not accounted for in the balance sheet.

Land depreciation is not calculated. Depreciation is calculated at the time of useful life of a particular asset, by using the straight-line method and applying the following depreciation rates fixed by the management:

Intangible assets	
Licenses and computer software	20 %
Fixed (Capital) Assets:	
Buildings and Structures	5 %
Technological Equipment and Machinery operated in harsh working environment or at the maximum load level	35 %
Transportation Vehicles and Equipment	20 %
Computers and Data Storage Equipment	35 %
Other Fixed Assets	30 %

Intangible assets consist of licences and computer softwares, which were achieved against pay. The value of intangible assets is amortized by depreciation.

Revaluation of fixed assets is performed periodically. In compliance with the International Valuation standards, "BDO Invest Rīga" conducted the Fixed Assets revaluation in order to provide support for the 2004 and 2007 (completed on December 31) financial needs of the JSC "Liepājas metalurģs".

As a result of this revaluation the value increase was recorded, which is shown in the Shareholders Equity item called "Long-Term Assets Revaluation Reserve". The Financial Statements record the revaluation based on the market valuation methods, i.e. the accumulated depreciation is liquidated as of the revaluation date and a defined value is accepted as its new report value.

Expenditures for current repairs and maintenance are incorporated in the Profit and Loss Statement for the period, in which they are incurred.

### **Construction in progress**

Construction in progress represents tangible non-current assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses.

Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Profit or loss from exclusion of fixed assets are calculated as a difference between book value of fixed assets and income gained as a result of their sale, and income from the respective fixed asset revaluation reserve write-off, and are included in the Profit and Loss Statement for the period in which it was created.

The real estate of the Company located in str.Brivibas 3/7, str.Brivibas 93, str.Brivibas 93<sup>a</sup>, str.Brivibas 95<sup>a</sup>, str.Brivibas 95<sup>b</sup>, str.Brivibas 97<sup>a</sup> and str.Brivibas 99<sup>a</sup> are as credit line security for the bank.

### **Investment Properties**

Investment properties refer to land and buildings kept by the company in order to receive rent from the lease of these property sites, as well as gain income resulting from an increase of value of the said real estate, instead of using it for industrial purposes, supply of goods or services, administrative functions or sale as part of daily business transactions.

Investment properties are initially valued at their cost value, including the cost of the respective transaction. After their initial recognition, investment properties are evaluated in their actual value, which corresponds to the current price of a similar property in similar location and condition and with similar lease contract terms. In cases, when such information is not available, the most recent possible prices in a less active market are used or current value for anticipated cash flow in the future is calculated, which is substantiated with the effective lease contracts and rates of rent for similar properties in the market. Actual value of property is established annually by a certified real estate appraiser from "BDO Invest Rīga".

Beginning from year 2006, profit or losses from adjustments of actual value of investment properties are reflected in the Profit and Loss Statement. Prior to year 2006, the changes in actual value of fixed assets were reflected in the long-term assets revaluation reserve under owner's equity.

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

### **Investments in Subsidiaries and Associated Companies**

Investments in subsidiaries (i.e., in companies, in which the Company is holding more than 50% of share capital or which it is controlling in some other way) and associated companies (i.e., companies, in which the Company exercises significant influence but does not hold the controlling interest, in which it has a 20-50% stake of share capital) are entered in accounts by applying the cost method. After initial recognition, investments in subsidiaries and associated companies are entered in accounts in their initial value, less the losses due to reduction of value. The Company recognizes the revenues from its holding in equity only to the extent to which the Company receives the share of accumulated profit of the subsidiary or associated company, which is gained after the date of acquisition of capital shares/parts. The received part of profit, which exceeds such profit, is considered as recovery of investment and is regarded as reduction of initial value of investments. Dividends from affiliated companies are not received.

### **Changes in Accounting Policy**

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

### **Currency Unit and Conversion of Foreign Currency**

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

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

### **Cash and Its Equivalents**

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

### **Long-Term and Short-Term Items**

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

### **Capitalization of Loan Payments and Other Payments**

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

### **Accounts Receivable**

Accounts receivable are presented in the balance sheet in their net value, by deducting specific provisions for bad and doubtful debts from initial value. Specific provisions for bad and doubtful debts are formed in cases when the management considers that recovery of these specifically separated accounts receivable is unlikely. On a conservative basis, only the actual account receivable debt is presented in the Balance Sheet. The Accounts Receivable balances are recorded based on the corresponding entries in the accounting registers.

### **Financial Leasing**

The Company does not practice financial leasing. JSC "Liepājas metalurģs" uses such forms of short-term financing as factoring. The commercial contracts often have payment terms up to 90 days. The bank acts as an intermediary between the supplier and buyer by purchasing wire-invoices from the supplier and inquiring corresponding payments from the buyer. The Company operates under a recourse factoring agreement, where the Company is held responsible in front of the bank in such cases when the buyer fails to deliver the payment.

### **Creditor Obligations**

Creditor Obligations are reflected in the costs and comply with proper documentation and entries in the accounting registers. Short-term creditors include those with payment terms within a 12-month period after the end of the reporting period.

Credited advance payment is presented as loans (other loans).

### **Research and Development Costs**

Research costs are recognized in the Profit and Loss Statement for the period in which they were incurred. Development costs related to sale or development of an asset for own needs are capitalised in the balance sheet under intangible assets, which are recognized only in that case when the Company can prove that the completion of this intangible assets is technically possible in a way to enable its further sale or use to produce business benefits.

### **Evaluation of Stock**

Stock is evaluated by using the weighted average cost method. First-in-first-out (FIFO) method is used in the inventory accounting. Obsolete, slow-turnover or damaged stock is written-off. Inventories in the shops are written-off based on the production average costs. The stock inventory amount is checked during an annual cycle count.

Finished goods, work-in-process and service balances are reflected in the costs.

### **Provisions for Unused Vacations**

Reserves for unused vacations are established by taking a fraction of 1/12 from the next year anticipated wages expenses from the approved wage reserve in the 2008 budget of the Joint-Stock Company.

### **Corporate Income Tax**

Corporate income tax in the reporting period includes current and deferred taxes. The corporate income tax has been stated in the Profit or Loss Statement.

Corporate income tax for the reporting period has been calculated in accordance with the requirements of the law of the Republic of Latvia "On corporate income tax", applying a 15% rate fixed by the law.

### **Classification Has Been Changed for the Following Types of Financial Information:**

<b>Financial Information</b>	<b>Beginning Value</b>	<b>Reclassified</b>
Balance Sheet, 2006	Debts to Suppliers and Contractors	Advance Payments Received from Customers
Profit and Loss Statement, 2006	Other operating income (income from the currency exchange fluctuations)	Other operating costs (currency exchange fluctuations)

The currency exchange fluctuations in the Quarterly Report are reflected in the Net Value.

### **Number of Employees**

The average number of LM employees for 9 months of the year 2008 was 2664.

## ENCLOSURES TO BALANCE SHEET

### 1. INVESTMENT CHANGES

#### Long-Term Financial Investments (LVL)

Company Name, Address, Registration Number	Ownership in % and LVL	
	30.09.2007	30.09.2008
<b>Related Companies (Subsidiaries)</b>		
LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM) Sliežu iela 7/1, Liepāja; 40003154754	91.63 4310926	95.17 7749206
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	95 1900	95 1900
"Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 1800	90 1800
"Rūķis LM", Ltd. Vānes iela 25, Liepāja; 42103038147	100 1316000	100 1316000
<b>Total Investments in Related Companies, LVL</b>	<b>5630626</b>	<b>9068906</b>
<b>Associated Companies</b>		
"Elme Messer Metalurģs", Ltd. LSEZ Brīvības iela 93, Liepāja; 40003461570	49 432343	49 432343
"SMA LM Mineral", Ltd. Brīvības iela 93, Liepāja; 42103037781	50 13000	50 13000
JSC "Sātiņi LM", Brīvības iela 93, Liepāja 42103037207	50 12500	50 84500
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 120000	50 120000
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 6000	24 0
<b>Total Investments in Associated Companies, LVL</b>	<b>583843</b>	<b>649843</b>

#### Long-Term Financial Investments: Quarterly Movement Report for 9 months of the year 2008 (LVL)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on 31.12.2007	9068906	577843	45073
Invested (loans provided)		72000	0
Written off (Repaid loans)			3070
Moved to another item (or written-off)			
Accumulated saving			
The balance on 30.09.2008	9068906	649843	42003

**Long-Term Financial Investments (EUR)**

Company Name, Address, Registration Number	Ownership in % and EUR	
	30.09.2007	30.09.2008
<b>Related Companies (Subsidiaries)</b>		
LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM) Sliežu iela 7/1, Liepāja; 40003154754	91.63 6133895	95.17 11026127
"Sports Club Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003348213	95 2703	95 2703
"Ice-Hockey Hall Liepājas metalurģs", Ltd. Brīvības iela 93, Liepāja; 40003421648	90 2562	90 2562
"Rūķis LM", Ltd. Vānes iela 25, Liepāja; 42103038147	100 1872499	100 1872499
<b>Total Investments in Related Companies, EUR</b>	<b>8011659</b>	<b>12903891</b>
<b>Associated Companies</b>		
"Elme Messer Metalurģs", Ltd. LSEZ Brīvības iela 93, Liepāja; 40003461570	49 615169	49 615169
"SMA LM Mineral", Ltd. Brīvības iela 93, Liepāja; 42103037781	50 18497	50 18498
JSC "Sātiņi LM" Brīvības iela 93, Liepāja; 42103037207	50 17786	50 120232
"Metalurģs & Duna", Ltd. Stūrmaņa 1, Liepāja; 42103019610	50 170745	50 170745
JSC "Liepājas tranzīta ekspresis" Sliežu 7/1, Liepāja; 42103021668	24 8537	24 0
<b>Total Investments in Associated Companies, EUR</b>	<b>830734</b>	<b>924644</b>

Long-Term Financial Investments: Quarterly Movement Report for 9 months of the year 2008 (EUR)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on 31.12.2007	12903891	822197	64132
Invested (loans provided)		102447	
Written off (Repaid loans)			4368
Moved to another item (or written-off )			
Accumulated saving			
The balance on 30.09.2008	12903891	924644	59764

## 2. ACCOUNTS RECEIVABLE (DEBTORS)

DEBTORS	As of 30.09.2008		As of 30.09.2007	
	LVL	EUR	LVL	EUR
<b>Customers and affiliated companies debts</b>	<b>21810130</b>	<b>31033019</b>	<b>18262002</b>	<b>25984488</b>
Incl. Debts of buyers and customers	15816241	22504483	12906234	18363917
Incl. Debts of buyers with factoring activities	5778653	8222282	4358638	6201783
Incl. Debts of related companies (subsidiaries)	186302	265084	936958	1333171
Incl. Debts of associated enterprises (doubtful debtors debt)	28934 /30551/	41169 /43470/	60172 /458754/	85617 /652748/
<b>Other debtors</b>	<b>1862683</b>	<b>2650359</b>	<b>40018343</b>	<b>56940972</b>
Incl. Accrued and unpaid VAT	19971	28416	52904	75276
Incl. Advance payments	2045	2910	8021	11413
Incl. VAT budget overpayments	1781710	2535145	3352634	4770368
Incl. Debt for caused damages to the enterprise	0	0	192	273
Incl. Various debtors	37611	53516	80335	114306
Incl. Overpaid salaries	202	287	253	360
Incl. Advance prepayment for services	11045	15716	36524004	51968976
Incl. Advance prepayment for Corporate income tax	0	0	0	0
Incl. Overpaid taxes	99	141	0	0
Incl. Security deposit	10000	14229	0	0
<b>Short-term loans to employees</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Future periods payments</b>	<b>136382</b>	<b>194054</b>	<b>34842</b>	<b>49576</b>
Incl. Press expenses	10784	15344	5202	7402
Incl. Miscellaneous	48492	68998	15670	22296
Incl. Property insurance	50000	71144	13970	19878
Incl. Audit expenses	0	0	0	0
Incl. Rent	0	0	0	0
Incl. Publicity and Advertisemenet	27106	38568	0	0
<b>Total Debtors:</b>	<b>23809195</b>	<b>33877432</b>	<b>58315187</b>	<b>82975036</b>

### 3. PROVISIONS

	Provisions for anticipated vacations (4318)		Provisions for doubtful debtors (4319)		Other provisions (4316)		Tax provisions	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
<b>On 31.12.2007</b>	1907030	2713459	60098	85512	0	0	148242	210929
Increase	0	0	0	0	4000000	5691487	0	0
Decrease	0	0	-29547	-42042	0	0	0	0
Written-off as bad debt	0	0	0	0	0	0	0	0
Repriced	0	0	0	0	0	0	0	0
<b>On 30.09.2008</b>	<b>1907030</b>	<b>2713459</b>	<b>30551</b>	<b>43470</b>	<b>4000000</b>	<b>5691487</b>	<b>148242</b>	<b>210929</b>

**4. ACCOUNTS PAYABLE (CREDITORS)**

CREDITORS	As of 30.09.2008		As of 30.09.2007	
	LVL	EUR	LVL	EUR
<b>Short-term borrowing from credit institutions (credit line)</b>	<b>3994738</b>	<b>5684000</b>	<b>10782419</b>	<b>15342000</b>
<b>Credit interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Short-term borrowing from credit institutions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Credit interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Advance payments (residents)</b>	<b>264937</b>	<b>376971</b>	<b>337517</b>	<b>480243</b>
<b>Advance payments (non residents )</b>	<b>1528534</b>	<b>2174908</b>	<b>2421633</b>	<b>3445673</b>
<b>Other borrowing (factoring)</b>	<b>6794497</b>	<b>9667698</b>	<b>5012665</b>	<b>7132380</b>
<b>Debts to suppliers and contractors</b>	<b>9733880</b>	<b>13850063</b>	<b>12580445</b>	<b>17900361</b>
Incl. Materials and gas	5274824	7505398	7466345	10623652
Incl. Services	1152784	1640264	1118743	1591828
Incl. Scrap, various services related to scrap delivery, processing	3204754	4559954	3711748	5281342
Incl. Fixed assets	97606	138881	191107	271921
Incl. Medical department creditors	3912	5566	1594	2268
Incl. Other Creditors	0	0	90908	129350
<b>Debts to related enterprises (subsidiaries)</b>	<b>110602</b>	<b>157372</b>	<b>110247</b>	<b>156867</b>
<b>Debts to associated enterprises</b>	<b>25071</b>	<b>35673</b>	<b>49571</b>	<b>70533</b>
<b>Taxes and social insurance payments</b>	<b>1659403</b>	<b>2361118</b>	<b>2175964</b>	<b>3096118</b>
Incl. State tax	671	955	686	976
Incl. Residents' Income tax	401592	571414	410878	584627
Incl. VAT for the previous period	0	0	0	0
Incl. Social Security tax	573641	816218	549112	781316
Incl. Packing tax	0	0	0	0
Incl. Natural resources tax	20207	28752	21205	30172
Incl. Corporate Income tax	644722	917357	1194083	1699027
Incl. Real estate tax (buildings)	8436	12003	0	0
Incl. Real estate tax (land)	10134	14419	0	0
<b>Other creditors (liabilities)</b>	<b>1235092</b>	<b>1757378</b>	<b>1217259</b>	<b>1732004</b>
Incl. Payments for salaries	1194269	1699292	1176699	1674292
Incl. Deductions from salaries	40823	58086	40560	57712
<b>Total Creditors:</b>	<b>25346754</b>	<b>36065182</b>	<b>34687720</b>	<b>49356179</b>

## ENCLOSURES TO PROFIT AND LOSS STATEMENT

### 5. NET TURNOVER (REVENUE)

Product Description	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Rolled steel	222401493	316448815	172105485	244884043
Consumer goods	940959	1338864	2425266	3450843
Services	143701	204468	176739	251477
Sold steam, gCal	14752	20990	11262	16024
Medical department	827637	1177621	725468	1032248
Transportation services	52633	74890	41570	59149
<b>TOTAL</b>	<b>224381175</b>	<b>319265649</b>	<b>175485790</b>	<b>249693784</b>

**6. NET TURNOVER BY GEOGRAPHIC MARKETS**

Market	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
European Union countries	133289493	189653862	140433977	199819547
Other third countries	91091682	129611787	35051813	49874237
<b>Total</b>	<b>224381175</b>	<b>319265649</b>	<b>175485790</b>	<b>249693784</b>

#### 7. PRODUCTION COSTS OF SOLD GOODS

Cost Description	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Materials	149967277	213384211	110127867	156697838
Salaries and wages	13005829	18505627	10770253	15324689
Social benefits deductions	3056970	4349676	2524163	3591560
Depreciation	6508176	9260300	4104043	5839527
Other costs	23261872	33098662	17247577	24541091
<b>Total</b>	<b>195800124</b>	<b>278598477</b>	<b>144773903</b>	<b>205994705</b>

#### 8. SALES COSTS

Cost Description	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Packing materials	141273	201013	123920	176322
Transportation costs	1199869	1707260	1247689	1775302
Freight	2224680	3165434	2096433	2982955
Port handling charges	1573102	2238322	759442	1080589
Advertising and marketing costs	45518	64766	73105	104019
Other sales costs (insurance, storage/warehousing, depreciation, and other)	300308	427300	381393	542673
Bank services	53092	75543	64822	92233
<b>Total</b>	<b>5537842</b>	<b>7879639</b>	<b>4746804</b>	<b>6754094</b>

**9. ADMINISTRATION COSTS**

Costs Description	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Salaries and social costs	3744088	5327357	3877317	5516925
Communication costs	92271	131290	94784	134865
Other office supplies and office maintenance costs	970895	1381459	1219098	1734620
Legal and auditing fees, translation	303878	432379	352703	501851
Presentation costs	144163	205125	88612	126084
Depreciation of fixed assets	428856	610207	321178	456995
Management traveling expenses	120666	171692	102156	145355
Management training	21111	30038	13024	18531
Costs for bank account services	9947	14153	12535	17836
Costs related to stockholders	96286	137003	9963	14176
<b>Total</b>	<b>5932161</b>	<b>8440705</b>	<b>6091370</b>	<b>8667239</b>

**10. OTHER OPERATING INCOME**

Income Description	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Sale of current assets	1419049	2019125	1061619	1510548
Sale of fixed assets	15583	22173	129883	184807
Received fines	33369	47480	25425	36177
Written-off revaluation reserve of fixed assets	315316	448654	211762	301310
Bad debt recovery	126830	180463	205121	291861
Other income from operating activity	1002326	1426181	134141	190865
<b>Total</b>	<b>2912473</b>	<b>4144076</b>	<b>1767951</b>	<b>2515568</b>

**11. OTHER OPERATING COSTS**

Costs Description	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Sales costs of current assets	1147975	1633421	752677	1070963
Costs related to the sale and liquidation of fixed assets	149134 0	212199 0	96471 0	137266 0
Currency exchange loss	201403	286571	241283	343315
Costs of reserve establishment	4000000	5691487	0	0
Provisions for bad debts	0	0	44884	63864
Doubtful debts write-off	141511	201352	102700	146129
Paid compensations and other benefits	247840	352645	229641	326750
Other costs	68372	97285	6364	9055
Paid fines	16240	23107	66960	95275
Costs not related to the operating activities	1925605	2739889	1720040	2447396
Costs of infrastructure maintenance	36845	52426	28755	40915
Training costs of the new staff	17358	24698	0	0
Costs of previous period	110928	157836	0	0
Costs of auto maintenance	10748	15293	0	0
<b>Total</b>	<b>8073959</b>	<b>11488209</b>	<b>3289775</b>	<b>4680928</b>

## 12. INTEREST INCOME

Income	For 9 months of year 2008		For 9 months of year 2007	
	LVL	EUR	LVL	EUR
Income from loans to business persons	4393	6251	106473	151497
Income from bank accounts	2190	3116	11341	16137
Income from deposit investments	117086	166598	52266	74368
<b>Total Interest Income:</b>	<b>123669</b>	<b>175965</b>	<b>170080</b>	<b>242002</b>