

For attn. of Mr. A.Bērziņš  
President of the Republic of Latvia

Mrs. S.Āboltiņa  
Chairwoman of Saeima

Mr.V.Dombrovskis  
Prime Minister

Liepaja  
15.10.2013 No.

On capitalisation of the state credit obligations of JSC Liepajas Metalurgs

Dear Mr.Berzins,  
Dear Mr.Dombrovskis,  
Dear Mrs.Aboltina,

Joint Stock Company Liepajas Metalurgs with its historical past and the previously good results of work proved its importance in the national economy of the Republic of Latvia, and the company wants to keep the production, the jobs and to socially ensure the inhabitants of Liepaja city. To accomplish this goal it is essential to restructure the shareholders' structure and to attract investments.

Due to the existing debt obligations of JSC Liepajas Metalurgs in the amount of LVL 129.1 Mio. none of the potential investors expressed any real interest to invest in the company any amount as the return of the investments is impossible within a clearly arranged period of time, that makes impossible implementation of the approved legal protection plan of JSC Liepajas Metalurgs.

Therefore, hereby we ask you to support our proposal to issue additionally 78.8 Mio. shares, that would fall into the ownership of the Latvian state, capitalizing the existing debts, buying the controlling stake in the company Liepajas metalurgs and the possibility to recover the investment from dividends or from the sale of shares within a longer period of time. At the same time JSC Liepajas Metalurgs following completion of the share issue would have the opportunity to get loans in the lending facilities to continue the production.

The essence of the proposal is as follows:

1. JSC Liepajas metalurgs still has not any particular investor, as the entrepreneurs are not willing to take risks by investing LVL 37 Mio. in the company, which has debts of LVL 101.9 Mio.
2. In our opinion, the only solution – the capitalization of debt of the Latvian state (including the Ministry of Finance – credit claims of LVL 51.9 Mio., JSC Citadele Bank – credit claims of LVL 12.4 Mio. and JSC Latvenergo – credit claims of LVL 14.5 Mio) amounting to LVL 78.8 Mio. Having such a type of the structure capital and credit obligations of the Joint Stock Company the company would be attractive for banks, giving credit for restoration of the production.
3. At the time of capitalization of the debt obligations and shares issue it would be necessary to keep the assets of the company and the staff, that in the period from 01.11.2013 till 01.04.2014 would amount to LVL 2.1 Mio., that may be repaid exclusively via financing of the secured creditors in the present situation.
4. These actions would be a solidary decision of the Latvian state, creditors, shareholders, the Board and the Council, in which case it would be possible to keep:
  - JSC Liepajas Metalurgs ~ 1800 jobs
  - the business environment, subordinated to the metallurgical company
  - export production in amount of approximately LVL 320 Mio p.a.
  - the ability to annually replenish the state budget by approximately LVL 10 Mio. in taxes
  - a significant consumer of JSC Latvenergo and Latvijas Gaze

At the same time we have to request your support for major changes to be introduced to the of order of application of the mandatory procurement component as under the present pricing of electricity, when restarting the production, the company cannot be competitive in the global market.

The lack of support for the above request will result in the insolvency of JSC Liepajas Metalurgs, when the return of the total debts will be impossible for the Latvian state and there will remain clearly

negative effect on the national economics as a whole. Failure to restart the production will create additional costs for the Insolvency Agency, the State Agency for Employment and socially vulnerable will become about 12 000 inhabitants of Liepaja city , including the employees of JSC Liepajas Metalurgs and the persons associated with them, as well as the people working in the business environment, subordinated to the metallurgical company, and persons related to it.

This is our last chance to save the JSC Liepajas Metalurgs and to show the concerns of the government for the welfare of the residents of Latvia!

With best regards

JSC Liepajas Metalurgs

G.Vilnitis  
Chairman of the Council

V.Terentiev  
Chairman of the Board