Joint-Stock Company

"Liepājas Metalurgs "

Reg.Nr. 40003014197

Quarterly Report

For 6 months of the year 2009

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Joint-Stock Company "Liepājas Metalurgs" Management Statement Regarding the Financial Statements for 6 months of 2009.

The Company's loss from business activities in the reporting period was 3.8 mill LVL (EUR 5.4 mill.), which was a profit of 4.6 LVL (EUR 5.6 mill.) in the first half quarter 2008.

The Net Turnover in the reporting period was 80.0 million LVL (EUR 113.8 mill.), and it was 126.4 million LVL (EUR 179.9 mill.) in the first half quarter 2008.

The decrease of net turnover and profit was primarily related to the economic and financial crisis and the fact that the reduction of sale prices was greater than reduction in the materials purchase price.

The Company invested LVL 740 thousand (EUR 1.05 million) in its development during the reporting period. JSC "Liepājas Metalurgs" continue the activities concerning the steel melting production practice and related to its modernization program coordination and 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 Metalurgs" (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 June 30, 2009 as well as the results of its operations and cash flow for 6 months of the year 2009. 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 Metalurgs":

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 Metalurgs"
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:	2009, 6 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) 18%
11. Council (Supervisory Board):	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 LV96UNLA 0012002467028
14. Chief Accountant:	Ligita Bērzupe
15. Average number of employees:	2407

BALANCE SHEET

ASSETS	Enclosure Number	30.06.2009. LVL	30.06.2009. EUR	30.06.2008. LVL	30.06.2008. EUR
1.LONG-TERM INVESTMENTS					
I. Intangible investments					
1. Other intangible investments		69645	99096	68327	97221
2. Advance payments for intangible investments		0	0	0	0
I. TOTAL:		**69645**	**99096**	**68327**	**97221**
II. Fixed assets					
1. Land, buildings and constructions and long-term sites		50937692	72477806	51152443	72783369
2. Long-term investments in rented fixed assets		0	0	0	0
3. Technological equipment and machinery		30289603	43098222	31122856	44283834
4. Other fixed assets and inventory		2644376	3762608	3173258	4515139
5. Fixed assets formation and costs of unfinished construction sites		2892631	4115843	1935937	2754590
6. Advance payments for fixed assets		113472	161456	187156	266299
II. TOTAL:		**86877774**	**123615936**	**87571650**	**124603232**
III. Investment properties					
1. Investment properties		**4800789**	**6830907**	**4882333**	**6946934**
III. TOTAL:					
IV. Long-term financial investments					
1. Share in the related companies (subsidiaries)		9069006	12904033	9068906	12903891
2. Loans to the related companies (subsidiaries)		41655	59270	43278	61579
3. Share in the capital of associated companies		649843	924643	649843	924643
4. Other loans		167000	237620	0	0
IV. TOTAL:	**1**	**9927504**	**14125566**	**9762027**	**13890113**
Section 1 total amount:		**101675712**	**144671504**	**102284337**	**145537500**
2. CURRENT ASSETS					
I. Stock (Inventories)					
1. Raw materials, basic and auxiliary materials		17307705	24626646	27739602	39469898
2. Unfinished products,Work-in-Process		1963323	2793557	1552479	2208979
3. Finished products and goods for sales		11859111	16873995	19623598	27921864
4. Incompleted orders		893	1271	1319	1877
5. Advance payments for goods		775218	1103036	3404744	4844514
I. TOTAL:		**31906250**	**45398504**	**52321742**	**74447132**
II. Accounts receivable (Debtors)					
1. Trade accounts receivable		5562643	7914928	8437916	12006073
2. Debt of related companies (subsidiaries)		267404	380482	174786	248698
3. Debt of associated enterprises		34839	49571	23126	32905
4. Other debtors (accounts receivable)		2729015	3883039	6020978	8567080
5.Short-term loans		0	0	0	0
6. Prepaid expenses		60184	85634	112350	159860
II. TOTAL:	**2**	**8654085**	**12313654**	**14769156**	**21014616**
III. Short-term financial investments					
III. TOTAL:		0	0	0	0
IV. Cash		9747058	13868814	9563068	13607020
IV. TOTAL:		**9747058**	**13868814**	**9563068**	**13607020**
Section 2 total amount		**50307393**	**71580971**	**76653966**	**109068767**
TOTAL ASSETS		**151983105**	**216252476**	**178938303**	**254606267**

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	30.06.2009. LVL	30.06.2009. EUR	30.06.2008. LVL	30.06.2008. EUR
1. SHAREHOLDERS' EQUITY					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		62925963	89535579	63196875	89921052
3. Reserves: a) reserves stipulated by law		0	0	0	0
3. Reserves: b) other reserves		44524829	63353124	38393389	54628871
TOTAL:		**44524829**	**63353124**	**38393389**	**54628871**
4. Retained earnings a) undistributed profit from the previous years		0	0	0	0
4. Retained earnings b) undistributed profit of the reporting year		-3819604	-5434807	4558548	6486229
section 1 total amount:		**120612221**	**171615729**	**123129845**	**175197985**
2. PROVISIONS		0	0	0	0
1. Provisions for anticipated taxes		0	0	148242	210929
2. Other provisions		830000	1180984	1907030	2713459
section 2 total amount:	**3**	**830000**	**1180984**	**2055272**	**2924389**
3. LIABILITIES (Accounts Payable)					
I. Long-term Creditors (Accounts Payable).		0	0	0	0
I. TOTAL:		**0**	**0**	**0**	**0**
II. Short-term Creditors (Accounts payable)					
1. Loans from credit institutions		15841905	22541000	0	0
2. Other loans		1197350	1703676	3499476	4979306
3. Advance payments received from customers		4403274	6265294	37507143	53367856
4. Suppliers and contractors trade account payable		7595576	10807531	10216950	14537410
5. Accrued liabilities (Payable bills of exchange)		0	0	0	0
6. Payable (debt) to related companies (subsidiaries)		90222	128374	182151	259178
7. Payable (debt) to associated companies		0	0	38468	54735
8. Taxes and state social insurance payments		659685	938647	1037406	1476096
9. Other liabilities		752872	1071240	1271592	1809312
II. TOTAL:		**30540884**	**43455763**	**53753186**	**76483893**
Section 3 total amount:	**4**	**30540884**	**43455763**	**53753186**	**76483893**
TOTAL LIABILITIES AND EQUITY		**151983105**	**216252476**	**178938303**	**254606267**

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	6 months 2008 LVL	6 months 2008 EUR
1	2	3	4	5	6	7
1	**Net turnover**	5,6	**79999507**	**113829043**	**126421211**	**179881177**
2	**Production costs of goods sold**	7	**-78979529**	**-112377745**	**-112633697**	**-160263312**
3	**Gross profit or loss (from turnover)**		**1019978**	**1451298**	**13787514**	**19617865**
4	**Sales costs**	8	**-4056950**	**-5772520**	**-3667019**	**-5217698**
5	**Administration costs**	9	**-2472598**	**-3518190**	**-3848486**	**-5475902**
6	**Other operating income**	10	**5241220**	**7457584**	**2108587**	**3000249**
7	**Other operating costs**	11	**-3201589**	**-4555451**	**-2847122**	**-4051090**
8	**Interest income and other similar income**	12	**89845**	**127838**	**70666**	**100549**
9	**Interest payments and similar expenses**		**-311525**	**-443260**	**-193377**	**-275151**
10	**Profit or loss before extraordinary items and taxes**		**-3691619**	**-5252701**	**5410763**	**7698822**
11	**Profit or loss before taxes**		**-3691619**	**-5252701**	**5410763**	**7698822**
12	**Income tax for the reporting period**		**0**	**0**	**-752000**	**-1070000**
13	**Deferred tax**		**0**	**0**	**0**	**0**
14	**Other taxes**		**-127985**	**-182106**	**-100215**	**-142593**
15	**Reporting period profit or loss after taxes**		**-3819604**	**-5434807**	**4558548**	**6486229**

The JSC "Liepājas Metalurgs" demonstrated profit at the rate of LVL –0.225 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		6 months 2008	
	LVL	EUR	LVL	EUR
OPERATING CASH FLOW				
Cash received from buyers	85056689	121024765	159447037	226872694
Cash received from other business activities	458319	652129	552698	786418
VAT overpayment received	5073127	7218409	5723922	8144407
Interests received from banks	89069	126734	68785	97872
Cash paid to suppliers and employees	-83131594	-118285602	-136665925	-194458092
Cash received from the core business activity	**7545610**	**10736436**	**29126517**	**41443300**
Interest payment	-311525	-443260	-225604	-321006
Corporate income tax payment	-252995	-359979	-6322	-8995
Other tax payments	-2911510	-4142706	-8564865	-12186705
Net cash flow from the core business activity	**4069580**	**5790491**	**20329726**	**28926594**
CASH FLOW FROM INVESTMENT ACTIVITIES				
Acquisition of fixed assets and intangible assets	-167027	-237658	-1333166	-1896924
Sale of fixed assets and intangible assets	131083	186514	3275	4660
Investments in related or associated companies	0	0	-72000	-102447
Revenue from other activities	1826025	2598199	0	0
Net cash flow from investment operations	**1790081**	**2547056**	**-1401891**	**-1994711**
CASH FLOW FROM FINANCING ACTIVITIES				
Short-term borrowings in net value (credit line)	2278491	3242001	-10925086	-15544997
Repayment of loans by related companies (including loan interest)	2406	3423	23242	33070
Other activities	-933576	-1328359	-1129125	-1606600
Net cash flow from financial activities	**1347321**	**1917065**	**-12030969**	**-17118527**
Result of foreign currency exchange rate fluctuations	-49550	-70503	-50811	-72298
Net growth of cash and its equivalents	**7157432**	**10184108**	**6846055**	**9741059**
Cash and its equivalents at the beginning of accounting period	2589626	3684706	2717013	3865961
Cash and its equivalents at the end of accounting period	**9747058**	**13868814**	**9563068**	**13607020**

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
As of 31.12.2007.	**16981033**	**63409841**	**0**	**21959004**	**16434385**	**0**	**118784263**
Previous year profit put in reserves				16434385	-16434385		**0**
Undistributed profit of the reporting period					6131440		**6131440**
Reserves distribution							**0**
Increase of revaluation reserve							**0**
Written-off revaluation reserve		-393044					**-393044**
As of 31.12.2008.	**16981033**	**63016797**	**0**	**38393389**	**6131440**	**0**	**124522659**
Previous year profit put in reserves						0	**0**
Undistributed profit of the reporting period					-3819604		**-3819604**
Increase of fixed capital							**0**
Increase of revaluation reserve							**0**
Written-off revaluation reserve		-90834					**-90834**
As of 30.06.2009.	**16981033**	**62925963**	**0**	**38393389**	**2311836**	**0**	**120612221**

	Share capital	Revaluation reserve of long-term investments	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As of 31.12.2007.	**24161833**	**90224075**	**0**	**31244848**	**23384023**	**0**	**169014779**
Previous year profit put in reserves				23384023	-23384023		0
Undistributed profit of the reporting period					8724253		8724253
Reserves distribution		0					0
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-559251					-559251
As of 31.12.2008.	**24161833**	**89664824**	**0**	**54628871**	**8724253**	**0**	**177179781**
Previous year profit put in reserves				0	0	0	0
Undistributed profit of the repoting period					-5434807		-5434807
Increase of fixed capital							0
Increase of revaluation reserve		0					0
Written-off revaluation reserve		-129245					-129245
As of 30.06.2009.	**24161833**	**89535579**	**0**	**54628871**	**3289446**	**0**	**171615729**

ENCLOSURES TO THE 6 MONTH QUARTERLY REPORT

ACCOUNTING POLICY

Basis for Preparation of the Annual Report

The Annual 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 Annual 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 Annual 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 in the year of 2009 applying the following depreciation rates fixed by the management:

Intangible assets	
Licenses and computer software	20 %
Fixed (Capital) Assets:	
Buildings and Structures	1.5 % - 2%
Technological Equipment and Machinery operated in harsh working environment or at the maximum load level	25 %
Transportation Vehicles and Equipment	20 %
Computers and Data Storage Equipment	35 %
Other Fixed Assets	30 %

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

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^{a}, str.Brivibas 95^{a}, str.Brivibas 95^{b}, str.Brivibas 97^{a} and str.Brivibas 99^{a} 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. The Company investments in related companies were LVL 9069006,- (EUR 12904033,-) and in associated companies were LVL 649843,- (EUR 924643,-).

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 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 entrees in the accounting registers.

Financial Leasing

The Company does not practice financial leasing. JSC "Liepājas Metalurgs" 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 entrees 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 2009 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.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The temporary differences are related with the differences in the depreciation rates of reporting and tax depreciation and amortization on the Company's non-current assets, as well as with accruals for unused annual leave and with tax losses carried forward. The deferred tax was calculated by applying a 15% tax rate fixed by the law.

Reclassification of Items

The classification of items in the financial reports was not changed.

Number of Employees

The average number of LM employees for 6 months of the year 2009 was 2407.

ENCLOSURES TO BALANCE SHEET

1. INVESTMENT CHANGES

Long-Term Financial Investments (LVL)

Company Name, Address, Registration Number	Ownership in % and LVL	
	30.06.2008.	30.06.2009.
Related Companies (Subsidiaries)		
LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM)	95.17	95.17
Sliežu iela 7/1, Liepāja; 40003154754	7749206	7749206
"Sports Club Liepājas metalurgs", Ltd.	95	95
Brīvības iela 93, Liepāja; 40003348213	1900	1900
"Ice-Hockey Hall "Liepājas metalurgs"", Ltd.	90	95
Brīvības iela 93, Liepāja; 40003421648	1800	1900
"Rūķis LM", Ltd.	100	100
Brīvības iela 93, Liepāja; 42103038147	1316000	1316000
Total Investments in Related Companies, LVL	**9068906**	**9069006**
Associated Companies		
"Elme Messer Metalurgs", Ltd. LSEZ	49	49
Brīvības iela 93, Liepāja; 40003461570	432343	432343
"SMA LM Mineral", Ltd.	50	50
Brīvības iela 93, Liepāja; 42103037781	13000	13000
JSC "Sātiņi LM"	50	50
Brīvības iela 93, Liepāja; 42103037207	84500	84500
"Metalurgs & Duna", Ltd.	50	50
Stūrmaņa iela 1, Liepāja; 42103019610	120000	120000
Total Investments in Associated Companies, LVL	**649843**	**649843**

Long-Term Financial Investments: Quarterly Movement Report for 6 months of the year 2009 (LVL)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on **31.12.2008.**	9069006	649843	45073
Invested (loans provided)			
Written off (Repaid loans)			3418
Moved to another item (or written-off)			
Accumulated saving			
The balance on **30.06.2009.**	9069006	649843	41655

Long-Term Financial Investments (EUR)

Company Name, Address, Registration Number	Ownership in % and EUR	
	30.06.2008.	30.06.2009.
Related Companies (Subsidiaries)		
LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM)	95.17	95.17
Sliežu iela 7/1, Liepāja; 40003154754	11026127	11026127
"Sports Club Liepājas metalurgs", Ltd.	95	95
Brīvības iela 93, Liepāja; 40003348213	2703	2703
"Ice-Hockey Hall "Liepājas metalurgs"", Ltd.	90	95
Brīvības iela 93, Liepāja; 40003421648	2562	2703
"Rūķis LM", Ltd.	100	100
Brīvības iela 93, Liepāja; 42103038147	1872499	1872499
Total Investments in Related Companies, EUR	**12903891**	**12904032**
Associated Companies		
"Elme Messer Metalurgs", Ltd. LSEZ	49	49
Brīvības iela 93, Liepāja; 40003461570	615169	615169
"SMA LM Mineral", Ltd.	50	50
Brīvības iela 93, Liepāja; 42103037781	18498	18498
JSC "Sātiņi LM"	50	50
Brīvības iela 93, Liepāja; 42103037207	120232	120232
"Metalurgs & Duna", Ltd.	50	50
Stūrmaņa iela 1, Liepāja; 42103019610	170745	170745
Total Investments in Associated Companies, EUR	**924644**	**924644**

Long-Term Financial Investments: Quarterly Movement Report for 6 months of the year 2009 (EUR)

	Share in the capital of related companies (subsidiaries)	Share in the capital of associated companies	Long-Term Loans
Beginning value on **31.12.2008.**	12904033	924643	64133
Invested (loans provided)			
Written off (Repaid loans)			4863
Moved to another item (or written-off)			
Accumulated saving			
The balance on **30.06.2009.**	12904033	924643	59270

2. ACCOUNTS RECEIVABLE (DEBTORS)

DEBTORS	As of 30.06.2009.		As of 30.06.2008.	
	LVL	EUR	LVL	EUR
Customers and affiliated companies debts	**5864886**	**8344981**	**8635828**	**12287676**
Incl. Debts of buyers and customers	4372170	6221037	5685708	8090034
Incl. Debts of buyers with factoring activities	1190473	1693890	2752208	3916039
Incl. Debts of related companies (subsidiaries)	267404	380482	174786	248698
Incl. Debts of associated enterprises	34839	49571	23126	32905
(doubtful debtors debt)	/132432/	/188434/	/30905/	/792423/
Other debtors	**2729015**	**3883039**	**6020978**	**8567080**
Incl. Accrued and unpaid VAT	8340	11867	133820	190409
Incl. Advance payments	289	411	1579	2247
Incl. VAT budget overpayments	1272732	1810934	5117939	7282171
Incl. Various debtors	15374	21875	36318	51676
Incl. Overpaid salaries	654	931	692	985
Incl. Advance prepayment for services	18770	26707	5266	7493
Incl. Advance prepayment for Corporate income tax	1402757	1995943	640543	911411
Incl. Overpaid taxes	99	141	46998	66872
Incl. Security deposit	10000	14229	37823	53817
Future periods payments	**60184**	**85634**	**112350**	**159860**
Incl. Press expenses	6210	8836	8283	11786
Incl. Miscellaneous	11871	16891	9663	13749
Incl. Property insurance	42103	59907	53154	75631
Incl. Publicity and Advertisemenet	0	0	41250	58693
Total Debtors:	**8654085**	**12313654**	**14769156**	**21014616**

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
On 31.12.2008.	1831600	2606132	154498	219831	0	0	0	0
Increase	0	0	0	0	0	0	0	0
Decrease	-1001600	-1425148	-22066	-31397	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
On 30.06.2009.	**830000**	**1180984**	**132432**	**188434**	**0**	**0**	**0**	**0**

4. ACCOUNTS PAYABLE (CREDITORS)

CREDITORS	As of 30.06.2009.		As of 30.06.2008.	
	LVL	EUR	LVL	EUR
Short-term borrowing from credit institutions (credit line)	**15841905**	**22541000**	**0**	**0**
Credit interests	**0**	**0**	**0**	**0**
Advance payments (residents)	**57842**	**82302**	**889204**	**1265223**
Advance payments (non residents)	**4345432**	**6182993**	**36617939**	**52102633**
Other borrowing (factoring)	**1197350**	**1703676**	**3499476**	**4979306**
Debts to suppliers and contractors	**7595576**	**10807531**	**10216950**	**14537410**
Incl. Materials and gas	5466195	7777695	6127683	8718907
Incl. Services	634781	903212	974593	1386721
Incl. Scrap, various services related to scrap delivery, processing	1491829	2122681	3053524	4344773
Incl. Fixed assets	0	0	56561	80479
Incl. Medical department creditors	2771	3943	4589	6530
Debts to related enterprises (subsidiaries)	**90222**	**128374**	**182151**	**259178**
Debts to associated enterprises	**0**	**0**	**38468**	**54735**
Taxes and social insurance payments	**659685**	**938647**	**1037406**	**1476096**
Incl. State tax	580	825	684	973
Incl. Residents' Income tax	222549	316659	415887	591754
Incl. VAT for the previous period	1235	1757	33	47
Incl. Social Security tax	414172	589314	599792	853427
Incl. Nature resources tax	21149	30092	21010	29895
Other creditors (liabilities)	**752872**	**1071240**	**1271592**	**1809312**
Incl. Payments for salaries	726053	1033080	1232089	1753105
Incl. Deductions from salaries	26819	38160	39503	56208
Total Creditors:	**30540884**	**43455763**	**53753186**	**76483893**

ENCLOSURES TO PROFIT AND LOSS STATEMENT

5. NET TURNOVER (REVENUE)

Product Description	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Rolled steel	79078605	112518718	125218551	178169946
Consumer goods	210506	299523	489818	696948
Services	87536	124553	114388	162759
Sold steam, gCal	9830	13987	10892	15498
Medical department	577187	821263	557736	793587
Transportation services	35843	51000	29826	42439
TOTAL	**79999507**	**113829043**	**126421211**	**179881177**

6. NET TURNOVER BY GEOGRAPHIC MARKETS

Market	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
European Union countries	30532966	43444497	76767196	109229879
Other third countries	49466541	70384547	49654015	70651298
Total	**79999507**	**113829043**	**126421211**	**179881177**

7. PRODUCTION COSTS OF SOLD GOODS

Cost Description	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Materials	54575780	77654339	85185628	121208229
Salaries and wages	7237030	10297366	8084916	11503799
Social benefits deductions	1699356	2417966	1900279	2703853
Depreciation	3099038	4409534	4089472	5818794
Other costs	12368325	17598541	13373402	19028637
Total	**78979529**	**112377745**	**112633697**	**160263312**

8. SALES COSTS

Cost Description	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Packing materials	61456	87444	98086	139564
Transportation costs	887212	1262389	877758	1248937
Freight	1484587	2112377	1505148	2141633
Port handling charges	1240884	1765619	961450	1368020
Advertising and marketing costs	23285	33132	20468	29123
Other sales costs (insurance, storage/warehousing, depreciation, and other)	262245	373141	170398	242455
Bank services	20094	28591	16855	23983
Factoring interest	47950	68227	6934	9866
L/C costs	29237	41601	9922	14118
Total	**4056950**	**5772520**	**3667019**	**5217698**

9. ADMINISTRATION COSTS

Costs Description	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Salaries and social costs	1597127	2272507	2362171	3361067
Communication costs	41438	58961	61431	87408
Other office supplies and office maintenance costs	482907	687115	631949	899182
Office supplies and technical books/literature	7069	10058	18271	25997
Legal and auditing fees, translation	70300	100028	230084	327380
Presentation costs	82893	117946	72463	103106
Depreciation of fixed assets	113333	161258	279571	397794
Management traveling expenses	48610	69166	81449	115891
Management training	2317	3297	18376	26147
Costs for bank account services	17450	24829	6383	9082
Costs related to stockholders	9154	13025	86338	122848
Total	**2472598**	**3518190**	**3848486**	**5475902**

10. OTHER OPERATING INCOME

Income Description	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Sale of current assets	309038	439721	780414	1110429
Sale of fixed assets and liquidation	131083 2981	186514 4242	3275 6930	4660 9861
Currency exchange income	32626	46423	0	0
Received fines	24889	35414	30717	43706
Written-off revaluation reserve of fixed assets	90834	129245	212966	303023
Bad debt recovery	37145	52853	64247	91415
Other income from operating activity	3611024	5138024	1010038	1437155
Income due to a decrease in provisions	1001600	1425148	0	0
Total	**5241220**	**7457584**	**2108587**	**3000249**

11. OTHER OPERATING COSTS

Costs Description	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Sales costs of current assets	254100	361552	570950	812389
Costs related to the sale and liquidation of fixed assets	22117 26732	31470 38036	4600 103606	6545 147418
Currency exchange loss	0	0	244854	348396
Doubtful debts write-off	400	569	141511	201352
Paid compensations and other benefits	210356	299310	218204	310476
Other costs	1564711	2226383	194250	276393
Paid fines	414	589	16213	23069
Costs not related to the operating activities	1012802	1441087	1183945	1684602
Costs of infrastucture maintenance	24189	34418	44458	63258
Training costs of the new staff	20690	29439	2901	4128
Costs of previous period	43223	61501	110882	157771
Costs of auto maintenance	21855	31097	10748	15293
Total	**3201589**	**4555451**	**2847122**	**4051090**

12. INTEREST INCOME

Income	For 6 months of year 2009		For 6 months of year 2008	
	LVL	EUR	LVL	EUR
Income from loans to business persons	777	1106	1881	2676
Income from bank accounts	2063	2935	1804	2567
Income from deposit investments	87005	123797	66981	95305
Total Interest Income:	**89845**	**127838**	**70666**	**100549**