

**JOINT STOCK COMPANY**

**“KURZEMES ATSLEGA 1”  
LV40003044007**

**Audited  
ANNUAL REPORT  
2007**

FOR THE PERIOD  
01.01.2007-31.12.2007

**Aizpute  
2008**

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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, 2007– December 31, 2007
Members of Supervisory Council ( until May 15 ,2007)	<b>Valdis Bikis</b> – "KURZEMES ATSLEGA 1", JSC, Technical Director – Chairman of Supervisory Council <b>Peteris Hanka</b> – Member of Supervisory Council,, <b>Guntars Stekjanis</b> – KURZEMES ATSLEGA 1", JSC, economist, Member of Supervisory Council, <b>Andris Taurins</b> – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic <b>Ivars Lacis</b> – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller
Members of Supervisory Council ( from May 15.,2007)	<b>Peteris Fridenbergs</b> – Chairman of Supervisory Council <b>Andris Taurins</b> – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic <b>Ivars Lacis</b> – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller <b>Voldemars Magone</b> - Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic <b>Guntars Stekjanis</b> – KURZEMES ATSLEGA 1", JSC, economist, Member of Supervisory Council,
Members of Board ( Until 15.May 2007 )	<b>Janis Plume</b> – Member of Board, "Kurzemes Atslega 1", JSC, Production Manager <b>Inara Burve</b> – Member of Board, "Kurzemes Atslega 1", JSC, Chief Accountant.
Members of Board ( From 15.May 2007 )	<b>Inara Burve</b> – Member of Board, "Kurzemes Atslega 1", JSC, Chief Accountant <b>Aldis Ozols</b> , Member of Board, "Kurzemes Atslega 1", JSC,, Technologic - Mechanic
Chairman of Board (Until 15 May 2007)	<b>Aivars Puisitis</b>
( From 15.MaiU 2007)	<b>Valdis Bikis</b>
Auditor	LtD "Zverināta revidenta firma Kapitals" Certified Auditor <b>Marija Jansone</b> , Certificate Nr. 25

## 2.1.BALANCE SHEET

ASSETS 1	Appendices	31.12.07. LVL	31.12.07. EUR	21.12.06. LVL	31.12.06. EUR
<b>1.LONG TERM INVESTMENT</b>					
1.Concesions, patents, licences	4	1623	2309	2088	2971
<b>Total</b>		<b>1623</b>	<b>2309</b>	<b>2088</b>	<b>2971</b>
<b>I. Intangible fixed assets</b>					
<b>II. Fixed assets</b>					
1. Land, building.	5	394240	560953	400637	570055
2.Equipment and machinery	5	199464	283812	146609	208606
3.Other fixed assets	5	58799	83664	69212	98350
4.Fixed assets development costs	5	46018	64578	49791	70846
5.Prepayment for fixed assets	5			36532	51980
<b>II Total fixed assets</b>		<b>698521</b>	<b>993907</b>	<b>702690</b>	<b>999837</b>
<b>1.Total LONG TERM INVESTMENT</b>		<b>700144</b>	<b>996215</b>	<b>704778</b>	<b>1002808</b>
<b>2.CURRENT ASSETS</b>					
<b>1.Inventories</b>					
1.Raw materials		282752	402320	308997	439663
2.Work in progress		207185	294798	189779	270031
3.Finished goods and goods for sale		181039	257595	121690	173149
5.Advance payment for goods	7	30648	43608	7312	10404
<b>I. Total inventories</b>		<b>701624</b>	<b>998321</b>	<b>627778</b>	<b>893247</b>
<b>II. Debtors</b>					
1.Trade debtors	8	139161	198008	162172	230750
4.Other debtors	9	4696	6682	5013	7133
7.Deferred expenses	10	806	1147	259	369
<b>II. Total debtors</b>		<b>144663</b>	<b>205837</b>	<b>167444</b>	<b>238252</b>
<b>III. Securities and capital participation</b>					
<b>IV . Cash</b>	11	27477	37096	8153	11601
<b>2.Total current assets</b>		<b>873764</b>	<b>1243254</b>	<b>803375</b>	<b>1143100</b>
<b>Total assets</b>		<b>1573908</b>	<b>2239469</b>	<b>1508153</b>	<b>2145908</b>

LIABILITIES 1	Appendices	31.12.07.	31.12.07.	21.12.06.	31.12.06.
		LVL	EUR	LVL	EUR
<b>1.CAPITAL</b>					
1.Share capital		918144	1306402	918144	1306402
3.Revaluation reserve		9182	13008	9142	13008
5.Retained profit					
a) previous years retained profit		259924	369838	249170	354536
current year profit		19274	27424	10754	15302
1Total Capital and reserves		<b>1206484</b>	<b>1716672</b>	<b>1187210</b>	<b>1689428</b>
<b>2.PROVISIONS</b>		27805	39563	25647	36942
Total PROVISIONS		27805	39563	25647	36942
<b>3.CREDITORS</b>					
<b>1.Long term creditors</b>					
Other loans		11620	16534	30922	43998
.Amounts payable to associated companies		25537	36336	40375	57448
Deferred tax		27672	39373	45004	64035
Deferred income		11183	15912	0	0
<b>1.Total long term creditors</b>		<b>76012</b>	<b>108155</b>	<b>116301</b>	<b>165481</b>
<b>2.Short-term creditors</b>					
3. Other loans		19301	27463	19115	27198
4..Bank loan		57900	82384	25400	36141
5.Advances received from customers		18290	26921	9382	13352
6.Trade creditors		106212	151126	73638	104777
8.Amounts payable to associated companies		9311	13248	880	12521
10.Taxes and social security payments		21713	30895	20189	28726
11.Other creditors		25522	36315	22471	31973
Deferred income		3728	5304	0	0
Accured liabilities		1000	1423	0	0
<b>2. Total short-term creditors</b>		<b>263607</b>	<b>375079</b>	<b>178995</b>	<b>254630</b>
Total creditors		<b>339619</b>	<b>483234</b>	<b>295296</b>	<b>420111</b>
Total liabilities		<b>1573908</b>	<b>2239469</b>	<b>1508153</b>	<b>2145908</b>

31.12..2006,30.09.2007      1EUR=0.702804 LVL

## 2.2.PROFIT OR LOSS ACCOUNT

31 December 2007

Item	note	31.12.07	31.12.07	31.12.06	31.12.06
	Nr.	LVL	EUR	LVL	EUR
Net sales	29	1954709	2781300	1782501	2536270
Cost of sales	30	1736038	2470160	1594972	2269441
Gross profit		218671	311141	187529	266830
Distribution expenses	31	26185	37258	16926	24084
Administration expenses	32	162811	231659	150444	214063
Other operating income	33	23967	34102	39227	55815
Other operating expenses	34	38171	54312	51966	73941
Operating profit		15471	22013	7420	10588
Income from other interest and similar incomes		35	50	24	34
Interest paid and similar expense	35	6082	8654	3305	4703
Profit before tax		9424	13409	4139	5889
Deferred tax income		17332	24661	12581	17901
Other taxes		7482	10646	5966	8489
Net profit for the year		19274	27424	10754	15302

Earnings per stock 31.12..2006. 0.01 LVL , 0.02 EUR

Earnings per stock 31.12.2007. 0.02 LVL , 0.03 EUR

31.12..2006.,31.12..2007 1 EUR = 0.702804

## 2.3.Cash flow statement 31 December 2007

(Cash flow statement, prepared using indirect method)

Indices	Appen dices	31.12.07	31.12.07	31.12.06	31.12.06
		LVL	EUR	LVL	EUR
2	1.	3.	4	5	6
<b>I. Operation activities</b>					
I.					
1. Profit or loss before extraordinary items and taxes.		9424	13409	4139	5889
Corrections:					
a) Wear and tear of fixed assets;		51621	73450	83182	118357
b) Value cancellation if long-term investments;		465	662	9236	13142
c) Formation of reserves (except the reserves for unreliable debt);		2157	3069	5511	7841
d) Profit or loss from fluctuation of foreign currency exchange rate;					
e) Proceeds from partnership in capital of subsidiary company and associated enterprises					
f) Proceeds from no securities and loans, that have been made long-term investment					
g) The rest of incomes and similar incomes		-35	-50	-24	-34
h) Long-term financial investment and cancellation of value short-term securities					
i) Interest payments and similar expenses		6082	8654	3305	4703
2. Profit or loss before corrections of effects of changes of current assets and short-term liabilities		69714	99194	105349	149898
Adjustments:					
a) Increase or decrease of residues of debts of debtors;		22781	32414	-21672	-30836
b) Increase or decrease of residues of resources;		-73846	-105073	-52789	-75112
c) Increase or decrease of remains of debts to be paid to suppliers, contractors and other creditors.		38108	54223	30974	44072
3. The gross cash flow of basic activity.		56757	80578	61682	88022
4. Expenses for interest payments.		-6082	-8564	-3305	-4703
5. Expenses for payments of enterprise income tax					
6. Expenses for fixed asset tax payments		-7482	-10646	-5966	-8489
7. Cash flow before extraordinary items.		43193	61458	52591	74830
8. Cash flow from extraordinary items.		43193	61458	52591	74830
<b>8. The net cash flow of basic activity</b>		<b>43193</b>	<b>61458</b>	<b>52591</b>	<b>74830</b>

1.	2.	3.	4.	5.	8.
			0		0
<b>II. Investing activities</b>					
1. Purchase of shares or parts of related or associated enterprises.		-55644	-79174	-97558	-138812
3. Purchase of fixed assets and nonmaterial investments				62611	89087
7. Entered interests		35	50	24	34
<b>9. Net cash flow used in investing activities</b>		<b>-55609</b>	<b>-79124</b>	<b>-34923</b>	<b>-49691</b>
<b>III. Financing activities</b>					
1.	2.	3.	4.	5.	6.
2. Loans received		32500	46243	8362	11898
3. Financial aids, pump-priming, presents or donations received		18265	25989	0	0
4. Expenses for repayment of loans		-19115	-27198	-15281	-21743
6. Dividends paid		0	0	-9182	-13065
7. Changes of reserves					
<b>7. Net cash flow of financing activity</b>		<b>31650</b>	<b>45034</b>	<b>-16101</b>	<b>-22910</b>
<b>IV. The result of exchange rate fluctuations of foreign currency.</b>					
<b>V. The net cash flow of year of account</b>		<b>19234</b>	<b>27368</b>	<b>1567</b>	<b>2230</b>
<b>VI. The reminder of currency and its equivalents at the beginning of year of account.</b>		8153	11601	6586	9371
<b>VII. The reminder of currency and its equivalents at the end of year of account.</b>		27477	39096	8153	11601



## 2.4 STATEMENT OF CHANGES IN EQUITY

Year 2007

(LVL)

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
<b>AS of 31 december 2005 LVL</b>	<b>918144</b>	<b>-94</b>		<b>278488</b>	<b>1196538</b>
PROVISIONS				<b>-20316</b>	<b>-20316</b>
<b>As of 31 december 2005 LVL</b>	<b>918144</b>	<b>-94</b>	<b>0</b>	<b>2581722</b>	<b>1176222</b>
Current year profit				10934	10934
dividend paid				<b>-9182</b>	<b>-9182</b>
Revaluation reserve		9236			<b>9236</b>
<b>As of 31.december 2006 LVL</b>	<b>918144</b>	<b>9142</b>	<b>0</b>	<b>259924</b>	<b>1187210</b>
dividend paid					
Current year profit				<b>19274</b>	<b>19274</b>
Revaluation reserve					
<b>As of 31.december 2007 LVL</b>	<b>918144</b>	<b>9142</b>		<b>279198</b>	<b>1206484</b>

(EUR)

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
<b>AS of 31 december 2005 EUR</b>	<b>1306401</b>	<b>-134</b>		<b>396253</b>	<b>1702520</b>
PROVISIONS				<b>-28907</b>	<b>-28907</b>
<b>As of 31 december 2005 EUR</b>	<b>1306401</b>	<b>-134</b>		<b>367346</b>	<b>1673613</b>
Current year profit				15558	15558
dividend paid				<b>-13065</b>	<b>-13065</b>
Revaluation reserve		13143			<b>13143</b>
<b>As of 31.december 2006 EUR</b>	<b>1306402</b>	<b>13008</b>		<b>369839</b>	<b>1689248</b>
dividend paid					
Current year profit				<b>27424</b>	<b>27424</b>
Revaluation reserve					
<b>As of 31.december 2007 EUR</b>	<b>1306402</b>	<b>13008</b>		<b>397263</b>	<b>1716672</b>

## 2.5. Appendices to the Financial statements 2006-2007

### Accounting policy

#### I. General principles

1. The financial report has been prepared according to law "On the Annual Accounts of Undertaking", "Latvian Accountancy Standards" and 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.

Valūta	31.12.2007	31.12.2006
USD	0.484	0.536
EUR	0.702804	0.702804
LTL	0.204	0.204
PLN	0.195	0.195

#### 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 recognised 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, konstrukcion	2
Transmision equipment	5
Nonindustrial buildings	2
Technological equipment	10
The power equipment	14.3
Computer	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 Enterprise income tax

14. The corporate income tax for the reporting year has been calculated complying the legislative requirements of the Republic of Latvia.

15. The value of deferred taxation is being calculated according to liability method and it refers to

all differences between the value of assets and the value of liabilities in financial reports and their value used for tax calculations. The tax rate used in differed taxation calculations is the one estimated for the period when the temporary differences are expected to level out. Temporary differences are due use to different depreciation rates for fixed assets as well as due to tax loss that is to be transferred to coming reporting years as well as due to provisions for the liabilities that have been made to cover the expenses of non-used vacations. Should the total deferred taxation value be included as asset in the balance sheet, it is to be included in financial report only if there is an estimated profit expected to which the temporary differences could be referred.

### 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.

17.AS at December 31 2007 , Provisions for not used holidays are created

n.p.k.	period	Not used holidays	Average day salari	Total	social insurance	total	
1	31.12.2005	2099	7.80	16372.2	3944.06	20316.26	20316.26
2	31.12.2006	2125	9.726	20668.27	4978.99	25647.26	5331.00
3	31.12.2007	1794	12.49	22407.27	5397.91	27805.18	2157.92

### General notices.(LVL)

	2007LVL	2007 EUR	2006LVL	2006 EUR
<b>The average annual number of employes</b>	188		185	
<b>Personnel expensis Total</b>	921231	647445	832754	585263
- wages	744791	523442	673865	473595
social insurance	176440	124003	158889	111668
- inter alia				
<b>Produktion personnel</b>				
- wages	548911	385777	500508	351759
social insurance	130908	92003	119339	83872
Total	679819	477780	619847	435631
<b>The personnel of administration</b>				
- wages	172237	121049	159218	111836
social insurance	39904	28045	38439	27015
Total	212141	149094	197567	138851
<b>i.a. Compensation of board</b>				
- compensation	18440	12960	15240	10711
- social insurance	3940	2769	3671	2580
Total	22380	15729	18911	13291
<b>Compensation of board</b>				
- compensation	6147	4320	4610	3240
- social insurance	1481	1041	1111	781
Total	7628	5361	5721	4021

The personnel of sales				
- compensation	23642	16616	14229	10000
- social insurance	5626	3954	3448	2423
Total	29268	20570	17676	12423

### 3. Result of liquidation of the fixed assets.

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
purchase prices	12290	17487	9107	12958
Depreciation	12290	17487	9107	12958
Balance cost	0	0	0	0
loss of liquidation of the fixed assets	0	0	0	0

### Appendice to balance sheet..

#### 4. Intangible fixed assets.

i	Intangible fixed assets LVL	Intangible fixed assets EUR
Purchases prices 31.12.2006	2 325	3308
31.12.2007.	2 325	3308
Depreciation 31.12.2006.	237	337
calculated	465	662
Deprecations. 31.12.2007	702	999
Balance cost 31.12.2006.	2 088	2971
balance cost 31.12.2007.	1 623	2309

**5.. Fixed assets (LVL)**

	plots, buildings	Technolo gical equiptme nt	The rest kapital assets	origination of capital assets	Advance payment.	Total
Balance SHEET value 31.12.2006.LVL	672 223	744 498	133 606	49 791	36 532	1 636 650
to put into operation	3 457	81 612	2 688			87 757
Shift	191	10 099	2 000	3 773	36 532	52 595
Purchase prices 31.12.2007.	675 489	816 011	134 294	46 018	0	1 671 812
31.12.2006.	271 586	597 889	64 485	0	0	933 960
Calculated	9 854	28 757	13 010	0	0	51 621
exclude	191	10 099	2 000	0	0	12 290
Depreciation 31.12.2007.	281 249	616 547	75 495	0	0	0 973 291
Balance sheet value 31.12.2006.	400 637	146 609	69 121	49 791	36 532	702 690
Balance sheet value 31.12.2007.	394 240	199 464	58 799	46 018	0	698 521

**Fixed assets (EUR)**

	plots, buildings	Technolo gical equiptme nt	The rest kapital assets	originati on of capital assets	Advance payment.	Total
Balance SHEET value 31.12.2006.LVL	956487	1059325	190104	70846	51980	2328743
to put into operation	4919	116123	3825		0	124867
Shift	272	14370	2846	5368	51980	74836
Purchase prices 31.12.2007.	961134	1161079	191083	65478	0	2378774
31.12.2006.	386432	850719	91754	0	0	1328905
Calculated	14021	40918	18512	0	0	73450
exclude	272	14370	2846	0	0	17487
Depreciation 31.12.2007.	400181	877267	107420	0	0	1384868
Balance sheet value 31.12.2006.	570055	208606	98350	70846	51980	999838
Balance sheet value 31.12.2007.	560953	283812	83663	65478	0	993906

## Buildings cadastre value

Īpašums	Kadastra Nr.	Cadastre value LVL	Cadastre value EUR	balance sheet value LVL	balance sheet value EUR
Ogļu- šķeldas laukums nojume	64051010122011	3536	5031	974	1386
Galdniecības ēka	64054010122012	9529	13588	6023	8570
Galvenais korpuss	64050100122001	31968	45486	9680	13773
Ražošanas ēka nr.2	64050100122002	15758	22422	5287	7523
Inženiertehniskais korpuss	64050100122003	7885	11219	1815	2583
Slīpēšanas-galvanikas iecirkņa-kluba ēka	64050100122005	42921	61071	21949	31231
Remontu iecirknis	64050100122006	25977	36962	13756	19573
Elektrolītisko komponentu noliktava	64050100122007	49772	70819	3578	5091
Katlu māja	64050100122010	18336	26090	37975	54034
Rūpnīcas medpunkts	64050100122013	6824	9710	3546	5045
Noliktava	64020100122014	37071	52747	13722	19525
Noliktava	64050100122015	12146	17282	288	408
Galvenais ražošanas korpuss ar kompresoru apakšstaciju	64050100122016	172927	246053	208500	296669
Kantora ēka	64050100122017	23445	33359	9680	13773
Neitralizatora ēka	64050100122018	2821	4014	10579	15053
Sargu māja	64050100122019	722	1027	0	0
Zāģētavas ēka	64050100122020	7514	10691	2087	2970
Transformatoru apakšstacija	64050100220021	3211	4569	1399	1991
Zemes gabals Aizputē, Zingberga ielā1, 5621 m2	64050100008	11242	15996	3100	4411
Kopā		483605	688108	351148	499639



**7.Advance payment for goods.**

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Latvija Statoil SIA	76	107	0	0
KIN KEI HARDWARE INDUSTRIES	30573	43501	7313	10405
KTotals	30648	46	7313	10405

**8.Trade debtors**

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Trade debtors accounting value	140996	200619	164017	233375
Provisions doubtful debt	1835	2611	1845	2625
Trade debtors neto value	139161	198008	162172	230750

**Provisions change**

	Trade debtors(LVL)	Trade debtors(EUR)
Provisions 31.12.2006.	1845	2625
Provisions decrease	10	14
provisions increase	0	0
Provisions 31.12.2007	1835	2611

**9.Other debtors .**

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
The overpaid taxes	378	538	2960	4212
Value added tax	897	1276	0	0
Personnel debts	103	147	0	0
Public utilities payment	2360	3358	1213	1726
Other debts	958	1363	840	1195
Kopā	4696	6682	5013	7133

**10. Deferred expenses.**

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
subscription	150	214	259	639
accident insurance	466	663	0	0
Other deferred expenses	190	270	0	0
Total	806	1147	259	369

**11. Money resources**

.

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Money resources in cash department	496	706	111	158
Money resources in bank	26981	38390	8042	11443
Total	27477	39096	8153	11601

**12. 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 equities )of share capital belongs to A/S “KURZEMES ATSLEGA 1”, reg.40003253124.

10,9 % ( 100795 equities)of share capital belongs to Bargain Trade Oy ,Finland

Council

5.02 % ( 46075 equities)of share capital belongs to Rolands Livmanis

.

**13. Revaluation reserve.**

Nosaukums	Revaluation reserve (LVL)	Revaluation reserve (EUR)
Balance 31.12.2006	9142	13008
increase	0	0
decrease	0	0
Balance 31.12.2007	9142	13008

The Revaluation reserve is created in connection with the presented equipment

#### 14. PROVISIONS

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Provisions for not used holiday	27805	39563	25647	36492
Kopā	27805	39563	25647	36492

#### 15. Other creditors ( long term)

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Total other creditors(long term)	30922	43998	43111	61341
Short-term part	19301	27463	12189	17343
Long-term part neto	11621	16535	30922	43998
i.f.		0		0
DnB NORD Līzings	7787	11080	11754	16724
Nordic Environment Finance Corporation	3833	5454	19167	27272

#### 16. Liabilities to associated Enterprises ( long term)

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
A.S "KURZEMES ATSLĒGA" reģ.nr..40003123254	25537	36336	40375	57448

## 17. Deferred tax liabilities

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Deferred tax liabilities	45004	64035	57585	81936
Incomes of reduction Deferred tax liabilities	-17332	-24661	-12581	-17901
Total	27672	39374	45004	64035

## 18 Deferred income ( long term)

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Financing from funds ERAF	11183	15912	0	0

## 19. Other creditors ( short term.)

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
DnB NORD Līzings	3967	5645	3781	5380
Nordic Environment Finance Corporation	15334	21818	15334	21818
Kopā	19301	27463	19115	27198

## 20. Leasing liabilities.

Nosaukums	31.12.2007. LVL	31.12.2007EUR
SIA DnB NORD Līzings		
I. Short-term part 2008	3967	5645
		0
II. Long-term part 2009	4164	5925
2010	3623	5155
Leasing liabilities total ( long term)	7787	11080
Leasing liabilities total	11754	16724

**21. Bank credit ( short term)**

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
AS DnB NORD BANKA	59700	84945	25400	36141

For the guarantee of increase in a limit of the credit for AS DnB NORD the commercial mortgage on resources in volume 84,000.0 LVL is given out

**22 Liabilities to associated Enterprises short term)**

Nosaukums	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
A.S "KURZEMES ATSLĒGA" reģ.nr..40003123254	9311	13248	8800	12521

**23. Movement taxes 2007.gadā. LVL**

Kind of taxes	balance 31.12.2006. LVL	calculated 2007.g. LVL	paid s 2007.g, LVL	To direct for other taxes LVL	balance 31.12.2007. LVL
Obligatory payments of the state social insurance	12355	177843	176775		13423
Income tax of inhabitants	6148	84305	84399		6054
value added tax	1557	40682	40065		2174
real estate tax	53	7482	7535		0
<b>Enterprise income tax</b>	-1308		203	1308	-203
Tax to natural resources	-802	768	141		-175
custom dues	0	2589	2589		0
Busines risk fee	0	632	570		62
Total	18003	314301	312277	1308	21335

i.a.

Overpayment taxes 378

Liability taxes 21713

**Movement taxes 2007.gadā. EUR**

Kind of taxes	balance 31.12.2006. LVL	calculated 2007.g. LVL	paid s 2007.g. LVL	To direct for other taxes LVL	balance 31.12.2007. LVL
Obligatory payments of the state social insurance	17580	253048	251528		19100
Income tax of inhabitants	8748	119955	120089		8614
value added tax	2215	57885	57007		3093
real estate tax	75	10646	10721		0
<b>Enterprise income tax</b>	-1861	0	289	1861	-289
Tax to natural resources	-1141	1093	201		-249
custom dues	0	3684	3684		0
Busines risk fee	0	899	811		88
Total	25616	447210	444330	1861	30357

t.sk.:

Overpayment taxes 538

Liability taxes 30895

**24. The rest of creditors.**

Kind of creditors	31.12.06 LVL	31.12.06 EUR	31.12.06 LVL	31.12.06 EUR
Wages for december	22488	31998	20041	28516
harm recompense	1023	1456	1020	1451
Deduction from wages	816	1161	363	517
Other creditors	1195	1700	1120	1594
Total	25522	36315	22544	32007

**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 minimised.

## Appendices for profit and loss account

### 1. Net sales

<b>Modus operandi</b>	31.12..07. LVL	31.12.07 EUR	31.12..06. LVL	31.12.06 EUR
Incomings from production of locks and ironmongery	1932942	2750329	1759117	2502998
Incomings from rendering of services	21767	30972	23384	33272
Total:	1954709	2781300	1782501	2536270

### The distribution of net sales by countries

Nr.p/k	Valsts nosaukums	Realizācija		Realizācija	
		2006.g.(LVL)	2007.g.(LVL)	2006.g.(EUR)	2007.g.(EUR)
1	Latvija	1002.3	1075.6	1426.1	1530.4
1	Lietuva	410.8	405.5	584.5	577.0
2	Ukraina	97.4	153.1	138.6	217.8
3	Igaunija	123.3	123.7	175.4	176.0
4	Krievija	84.9	123.0	120.8	175.0
5	Vācija	52.3	11.8	74.4	16.8
6	Somija	4.7	5.1	6.7	7.3
7	Kirgīzija	6.8	56.9	9.7	81.0
	Kopā:	1782.5	1954.7	2536.3	2781.3

### 2. Production costs of sales.

<b>The main elements of expenses</b>	31.12.2007. LVL	31.12.2007 EUR	31.12.06. LVL	31.12.06 EUR
Material costs	1164847	1657428	1016990	1447046
Wages	385777	548911	351759	500508
Obligatory payments of the state social insurance	92003	130908	83872	119339
Electrical energy	60656	86306	57499	81814
Costs of depreciation of fixed	51621	73450	83182	118357
The rest of expenses	96055	136674	91355	129986
<b>Expenses in total</b>	<b>1850959</b>	<b>2633677</b>	<b>1684657</b>	<b>2397051</b>
Correction of expenses				
Changes of remains of unfinished production	-17405	-24765	-39404	-56067
Changes of remains of self-made punches, molds and materials	-9985	-14207	-23192	-32999
Changes of remains of complete product	-60361	-85886	-1729	-2460
Changes of remains self-made fixed assets	-27170	-38659	-30871	-43925
<b>Total</b>	<b>1736038</b>	<b>2470160</b>	<b>1589461</b>	<b>2261599</b>



## 3. Distribution expenses

<b>The main elements of expenses</b>	31.12..07. LVL	31.12.07. EUR	31.12..06. LVL	31.12.06. EUR
Wages	16616	23642	10000	14229
Social expenses	3954	5626	2423	3448
The rest of expenses	5615	7989	4503	6407
Total	26185	37258	16926	24084

## 4. Administration expenses.

<b>The main elements of expenses</b>	31.12..07. LVL	31.12.07. EUR	31.12..06. LVL	31.12.06. EUR
Wages	121049	172237	111836	159128
Social expenses	28045	39904	27015	38439
The rest of expenses	12718	18096	11593	16495
Provisions	1000	1423	0	0
Total	162812	231661	150444	214063

## 5. The rest of incomes for economic activity

<b>Sort of revenue</b>	31.12..07. LVL	31.12.07. EUR	31.12..06. LVL	31.12.06. EUR
Sales of current assets	17130	24374	29202	41551
Incomes from exchange rate fluctuations	0	0	1816	2584
The rest of incomes	6837	9728	8209	11680
Total	23967	34102	39227	55815

## 34.. The rest of expenses for economic activity of enterprise.

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
Expenses for social sphere	3887	5531	3400	4838
Expenses, unrelated with economic activity, donations	13551	19281	13643	19412
average from exchange rate fluctuations.	7752	11030		0
Revaluation reserve	0	0	9236	13142
harm recompense	12980	18469	12507	17796
Other expenses	0	0	13180	18753
Total	38170	54311	51966	73941

**35..Interest, inetrest cover**

	31.12.07. LVL	31.12.07. EUR	31.12.06. LVL	31.12.06. EUR
interest	5530	7868	3140	4468
interest cover	552	785	165	235
Kopā	6082	8654	3305	4703

### 3..Report of Direction

The modus operandi of joint stock company "KURZEMES ATSLEGA 1" in first nine months 2007 was unchanged, the enterprise continues production of door locks an ironmongery, fittings for furniture, wrought iron for gates and fences, technological equipment and so on.

A/S "KURZEMES ATSLEGA 1" Share capital are 918144 LVL , net sales - 1954.7 thousand . LVL, retained earnings 19274 LVL, Earnings per stock 31.12.2007. 0.02 LVL , 0.03 EUR

The 2007, also as well as The 2006, is characterized by a significant increase of charges, therefore volume of profit is small. The retained earnings for December 31, 2007 was LVL 19274

Net sales in comparison with the last year has increased for 9,7 %  
 . The volume of sold products has divided as follows:

- The sales in Latvian market: - 54.%,
- Export – 46%.

By the side of 2006, the export of products has increased on 12.7% or 99.7 thousands LVL.

The increase of charges has caused not only by a increase of charges on material resources, but also by necessity to raise earnings to involve a human resources. The number of personnel in Dece,ber31, 2007 was 188, the average earnings for the 2007 was 236.00 LVL. The average number or personnel in 2006 was 199, the average earnings – 195 LVL. The average earnings in comparison with corresponding period of previous year had increased on 16.3%.

On February ,27<sup>th</sup> the JSC "KURZEMES ATSLEGA1" has received financing at a reate 18266 LVL for realization of the scheme of grants "Support of contributions in development of the enterprises in especially supported territories" of the project "Introduction of innovative technology of spot welding of the galvanized details". The equipment is set up and since January 26, 2007 is put into operation. The

implementation of this project will enable to improve quality of products and to reduce production costs.

In conditions when continuously grows the prices of material resources, the enterprise is compelled to buy materials in greater parties, that in long-term calculation is paid off because each following party of a material should be bought more expensively. In consequence of it the turnover of current assets decreases and there is a necessity on additional current assets. Therefore AS "KURZEMES ATSLEGA 1" in September 2076 has increased a limit of the credit line from 50,000.0 LVL on 60,000.0 LVL. For the guarantee of increase in a limit of the credit for AS DnB NORD the commercial mortgage on resources in volume 84,000.0 LVL is given out.

#### EVENTS AFTER THE DATE OF BALANCE

From the time when the balance is dated up to the date when the financial report is approved for publishing no significant events that could have had an effect on the estimations of the annual report have taken place.

#### **Activity of AS " KURZEMES ATSLEGA 1" in 2008**

The further development of the enterprise would depend on circumstances on which management превприятия cannot affect .

The primary goal for AS " KURZEMES ATSLEGA 1" in 2008 is the increase in volume of profit.

To reach this goal, it is planned as follows:

- 1) To increase a sales volume of production in 2008 by 10.00 %.
- 2) In circumstances of existence of high inflation and the unstable prices of material resources pay the greatest attention to reduction of charges:
  - Draw up the plan of reduction of reduction of the charge of power charges.

To estimate opportunities to increase the proportion of purchased products and accessories in the general charges, thus partially solve the problem of a labor force

Valdes priekšsēdētājs:

Valdes loceklis

Valdis Biķis

Ināra Burve

Aldis Ozols

April 16 2008

Aizpute

**Statement of responsibility of direction.**

Non-audited report of 2007 and a report of board are prepared being guided by the kindest conscience and good accounting practice. The accounting period is estimated being based on all information known to us at the moment of preparation of the financial report. Financial report gives a real and clear idea about assets, liabilities, financial situation and profits .

Responsibility for non-audited semiannual report of 2007 bears the Board of joint stock company "KURZEMES ATSLEGA 1".

The Board of AS "KURZEMES ATSLEGA 1":

Chairman of the Board	Valdis Bīķis
Member of the Board	Aldis Ozols
Member of the Board	Inara Burve

## INDEPENDENT AUDITOR'S REPORT

**To the share holder of Joint stock company „KURZEMES ATSLĒGA 1”**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Joint stock company „KURZEMES ATSLĒGA 1”, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended 2007, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Joint stock company „KURZEMES ATSLĒGA 1” as of December 31, 2007, and of its financial performance and its cash flows for the year then ended 2007 in accordance with Latvian Law of Annual report.

### *Report on the Management Report*

We have read the Management Report set out on pages 26-30 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2007.

Marija Jansone, Sworn Auditor,  
Certificate No.25,  
Board Member,  
„Sworn Auditor Company KAPITĀLS”, Ltd.  
Commercial company licence No 6

April 15th, 2008, Liepaja



*Jansone*