

JOINT STOCK COMPANY

“KURZEMES ATSLEGA 1”

LV40003044007

**Audited
ANNUAL REPORT
2008**

FOR THE PERIOD
01.01.2008-31.12.2008

**Aizpute
2009**

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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, 2008– December 31, 2008
Members of Supervisory Council (until April 19 ,.2008)	Peteris Fridenbergs – Chairman of Supervisory Council Andris Taurins – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Ivars Lacis – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller
Members of Supervisory Council (from April 19 ,.2008)	Voldemars Magone - Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Guntars Stekjanis – KURZEMES ATSLEGA 1", JSC, economist, Member of Supervisory Council Peteris Fridenbergs – Chairman of Supervisory Council Andris Taurins – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Ivars Lacis – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller Janis Valkass - Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Guntars Stekjanis – KURZEMES ATSLEGA 1", JSC, economist, Member of Supervisory Council,
Members of Board (Until 31.March, 2008)	Inara Burve – Member of Board, "Kurzemes Atslega 1", JSC, Chief Accountant
Members of Board (From 31.March 2008)	Aldis Ozols , Member of Board, "Kurzemes Atslega 1", JSC,, Technologic - Mechanic Aldis Ozols , Member of Board, "Kurzemes Atslega 1", JSC,, Technologic - Mechanic Modris Moisejs , Member of Board "Kurzemes atslega 1"
Chairman of Board (until 05.02.2009)	Valdis Bikis
Chairman of Board (from 05.02.2009.)	Eriks Mikstas
Auditor	Certified Auditor Aivars Rutkis , Certificate Nr. 18

2.1.BALANCE SHEET

ASSETS 1	Appendices	31.12.08. LVL	31.12.08 EUR	31.12.07. LVL	31.12.07 EUR
1.LONG TERM INVESTMENT					
1.Development expenses		50000	71144		
2..Concesions, patents, licenses	4	2605	3706	1623	2309
Total		52605	74850	1623	2309
I. Intangible fixed assets					
II. Fixed assets					
1. Land, building.	5	385545	548581	394240	560953
2.Equipment and machinery	5	202061	287507	199464	283812
3.Other fixed assets	5	52699	74984	58799	83663
4.Fixed assets development costs	5	33356	47461	46018	65478
5.Prepayment for fixed assets					
II Total fixed assets		673661	958533	698521	993906
1.Total LONG TERM INVESTMENT		726266	1033383	700144	996215
2.CURRENT ASSETS					
1.Inventories					
1.Raw materials		271928	386919	282752	402320
2.Work in progress		178215	253577	207185	294798
3.Finished goods and goods for sale		161189	229351	181039	257595
5.Advance payment for goods	7	19388	27587	30648	43608
I. Total inventories		630720	897434	701624	998321
II. Debtors					
1.Trade debtors	8	158713	225828	139161	198008
4.Other debtors	9	5035	7164	4696	6682
7.Deferred expenses	10	944	1343	806	1147
II. Total debtors		164692	234335	144663	205837
III. Securities and capital participation					
IV . Cash	11	9865	14037	27477	39096
2.Total current assets		805277	1145806	873764	1243254
Total assets		1531543	2179189	1573908	2239469

LIABILITIES 1	Appendices	31.12.08. LVL	31.12.08 EUR	31.12.07. LVL	31.12.07 EUR
1.CAPITAL					
1.Share capital		918144	1306401	918144	1306401
3.Revaluation reserve		15597	22194	9142	13008
5.Retained profit					
a) previous years retained profit		255451	363474	264048	375706
current year profit		9353	13308	-8597	-12232
1Total Capital and reserves		1198545	1705377	1182737	1682883
2.PROVISIONS		16079	22876	27805	39563
Total PROVISIONS		16079	22876	27805	39563
3.CREDITORS					
1.Long term creditors					
Other loans		3625	5158	11621	16534
.Amounts payable to associated companies		0	0	25536	36336
Deferred tax		56580	80506	51419	73162
Deferred income		7455	10608	11183	15912
1.Total long term creditors		67660	96272	99759	141944
2.Short-term creditors					
3. Other loans		7996	11377	19301	27463
4..Bank loan		57200	81388	57900	82384
5.Advances received from customers		18543	26384	18920	26921
6.Trade creditors		68043	96816	106212	151126
8.Amounts payable to associated companies		27375	38951	9311	13248
10.Taxes and social security payments		39490	56189	21713	30895
11.Other creditors		20566	29263	25522	36315
Deferred income		3728	5304	3728	5304
Accrued liabilities		6318	8990	1000	1423
2. Total short-term creditors		249259	354662	263607	375079
Total creditors		316919	450934	363366	517023
Total liabilities		1531543	2179189	1573908	2239469

31.12..2006,30.09.2007 1EUR=0.702804 LVL

2.2.PROFIT AND LOSS ACCOUNT

December 31, 2008

Item	note	31.12.08.	31.12.08	31.12.07.	31.12.07
	Nr.	LVL	EUR	LVL	EUR
Net sales	29	1766916	2514095	1 954 709	2781300
Cost of sales	30	1577696	2244859	1 736 038	2470160
Gross profit		189220	269236	218 671	311141
Distribution expenses	31	24554	34937	26 185	37258
Administration expenses	32	150551	214215	162 811	231659
Other operating income	33	48709	69307	23 967	34102
Other operating expenses	34	34395	48941	38 171	54312
Operating profit		28429	40450	15 471	22013
Income from other interest and similar incomes		29	41	35	50
Interest paid and similar expense	35	8712	12396	6 082	8654
Profit before tax		19746	28099	9 424	13409
Deferred tax income		-5161	-7343	-10539	14995
Other taxes		5232	7444	7 482	10646
Net profit for the year		9353	13308	-8597	12232

Loss per stock 31.12..2007. 0.02 LVL , 0.03 EUR

Earnings per stock 31.12.2008. 0.01 LVL , 0.02 EUR

2.3.Cash flow statement December 31, 2008

(Cash flow statement, prepared using indirect method)

Indices	Appen- dices	31.12.08.	31.12.08	31.12.07.	31.12.07
		LVL	EUR	LVL	EUR
2	1.	3.	4	5	6
I. Operation activities					
I.					
1. Profit or loss before extraordinary items and taxes.		19746	28096	9424	13409
Corrections:					
a) Wear and tear of fixed assets;		53062	75501	51621	73450
b) Value cancellation if long-term investments;		649	923	465	662
c) Formation of reserves (except the reserves for unreliable debt);		-11726	-16685	2157	3069
d) Profit or loss from fluctuation of foreign currency exchange rate;		-29	-41	-35	-50
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					
h) Long-term financial investment and cancellation of value short-term securities					
i) Interest payments and similar expenses		8712	12396	6082	8654
2. Profit or loss before corrections of effects of changes of current assets and short-term liabilities		70414	100190	69714	99194
Adjustments:					
a) Increase or decrease of residues of debts of debtors;		-20029	-28499	22781	32414
b) Increase or decrease of residues of resources;		70904	10887	-73846	-105073
c) Increase or decrease of remains of debts to be paid to suppliers, contractors and other creditors.		-27879	39668	38108	54223
3. The gross cash flow of basic activity.		93410	132910	56757	80758
4. Expenses for interest payments.		-8712	-12396	-6082	-8654
5. Expenses for payments of enterprise income tax		-5232	-7444	-7482	-10646
6. Expenses for fixed asset tax payments					
7. Cash flow before extraordinary items.		79466	113070	43193	61458
8. Cash flow from extraordinary items.					
8. The net cash flow of basic activity		79466	113070	43193	61458

1.	2.	3.	4.	5.	8.
			0		0
II. Investing activities					
1. Purchase of shares or parts of related or associated enterprises.		-77106	-109711	-55644	-79174
3. Purchase of fixed assets and nonmaterial investments					
7. Entered interests		29	41	35	50
9. Net cash flow used in investing activities		-77077	-109670	-55609	-79124
III. Financing activities					
1.	2.	3.	4.	5.	6.
2. Loans received				32500	46243
3. Financial aids, pump-priming, presents or donations received				18265	25989
4. Expenses for repayment of loans		-20001	-28459	-19115	-27198
6. Dividends paid					
7. Changes of reserves					
7. Net cash flow of financing activity		-20001	-28459	31650	45034
IV. The result of exchange rate fluctuations of foreign currency.					
V. The net cash flow of year of account		-17612	-25060	19234	27368
VI. The reminder of currency and its equivalents at the beginning of year of account.		27477	39096	8153	11601
VII. The reminder of currency and its equivalents at the end of year of account.		9865	14037	27477	39096

2.4 STATEMENT OF CHANGES IN EQUITY

Year2008

(LVL)

	Share capital	Revaluation reserve	Retained profit	Total
AS of 31 December 2006 LVL	918144	9142	259924	1187210
Correction for deferred tax			4124	4124
As of 31 December 2006 LVL	918144	9142	264048	1191334
Correction for deferred tax			-27871	-27871
Current year profit			19274	19274
As of 31.december 2007 LVL	918144	9142	255451	1182737
Revaluation reserve		6455		6455
Current year profit			9353	9353
As of 31.december 2008LVL	918144	15597	264804	1198545

(EUR)

	Share capital	Revaluation reserve	Retained profit	Total
AS of 31 December 2006 LVL	1306401	13008	369838	1689247
Correction for deferred tax			5868	5868
As of 31 December 2006 LVL	1306401	13008	375706	1695115
Correction for deferred tax			-39656	-39656
Current year profit			27424	27424
As of 31.december 2007 LVL	1306401	13008	363474	1682883
Revaluation reserve		9185		9185
Current year profit			13308	13308
As of 31.december 2008LVL	1306401	22193	376782	1705376

2.5. Appendices to the Financial statements 2007-2008

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.

31.12.2008	31.12.2008	31.12.2007
USD	0.495	0.484
EUR	0.702804	0.702804
LTL	0.203	0.204
PLN	0.171	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 recognized at the moment of their origin or at the moment when legal rights on such earnings arise.

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

7. Financing from funds ERAF for realization of the scheme of grants "Support of contributions in development of the enterprises in especially supported territories" of the project "Introduction of innovative technology of spot welding of the galvanized details". is transferred to incomes during amortization.

III. Fixed assets

8. All fixed assets originally estimated at the purchase value, excluding depreciation

9. Depreciation are calculated linear, accordingly confirmed parameters, using the following rates determined by administration:

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

IV. Debts of debtors

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

V. Financial leasing

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

VI Inventory.

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

VII 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.

Incorrect methodology of declaring corporation tax for 2007 leads to incorrect deferred tax liabilities. Besides enterprise income tax declarations for 2005., 2006. and 2007. were rectified.

(LVL)

	31.12.2005	31.12.2006	31.12.2007	31.12.2008
The book value of the fixed assets	646647	613268	649403	637205
Residual value of fixed assets for tax purposes	262727	313243	276970	238288
Accruals for leaves	20316	25647	27805	16079
Accruals for doubtful debts	1661	1845	1835	5639
Temporary disparity	361943	272533	342793	377199
Expected tax rate	15	15	15	15
Net deferred taxation commitments	54291	40880	51419	56580
Deferred corporate income tax in balance	57585	45004	27672	56580
Corrections in deferred corporate income tax (-) – expenses of deferred tax liability increase, (+) – Proceeds of deferred tax liability reduction	6323	4124	-23747	5161

Material misrepresentation influence until December 31, 2006 makes 4124 Ls and increases retained profit.

Material misrepresentation influence for 2007 makes ... and reduces retained profit of 2007 by amount of 27871 Ls.

After recalculation of 2007 expenses of deferred tax liability increase makes 10539.- Ls. In fact in Profit or Loss calculation of 2007 proceeds of deferred tax liability reduction are presented in amount of 17 332.- Ls.

VII Provisions

16. Provisions for the liabilities have been made to cover the expenses of non-used holidays.

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

General notices.(LVL)

	2008 EUR	2008 LVL	2007.EUR	2007 LVL
The average annual number of employees	188		188	
Personnel expenses Total	862890	606443	921231	647445
- wages	697690	490340	744791	523442
social insurance	165120	116103	176440	124003
- inter alia				
Production personnel				
- wages	519438	365063	548911	385777
social insurance	123868	87055	130909	92003
Total	643306	452118	679820	477780
The personnel of administration				
- wages	159707	112243	172237	121049
social insurance	36914	25943	39905	28045
Total	196621	138186	212142	149094
i.a. Compensation of board				
- compensation	18440	12960	18440	12960
- social insurance	3671	2580	3940	2769
Total	22111	15540	22380	15729
Compensation of Supervisory Council				
- compensation	6773	4760	6147	4320
- social insurance	1975	1388	1481	1041
Total	8748	7148	7628	5361
The personnel of sales				
- compensation	18545	13034	23643	16616
- social insurance	4418	3105	5626	3954
Total	22963	16139	29269	20570

3. Result of liquidation of the fixed assets.

	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.067 EUR
purchase prices	49274	70110	12290	17487
Depreciation	49100	69863	12290	17487
Balance cost	0	0	0	0
loss of liquidation of the fixed assets	-174	-248	0	0

Appendices to balance sheet..**4. Intangible fixed assets. (LVL)**

	Intangible fixed assets LVL	Development expenses LVL	Total
Purchases prices 31.12.2007	2325		2325
Purchase	1631	50000	51631
31.12.20068	3956	50000	53956
Deprecations. 31.12.2007	702		702
calculated	648		648
Deprecations. 31.12.2008.	1350		1350
Balance cost 31.12.2007	1623		1623
balance cost 31.12.2008	2605	50000	52605

Intangible fixed assets. (EUR)

	Intangible fixed assets EUR	.Development expenses EUR	Total
Purchases prices 31.12.2007	3308		3308
Purchase	2321	71143	73464
31.12.20068	5629	71143	76772
Deprecations. 31.12.2007	999		999
calculated	922		922
Deprecations. 31.12.2008.	1922		1922
Balance cost 31.12.2007	2309		2309
balance cost 31.12.2008	3707	71143	74850

5.. Fixed assets (LVL)

	plots, buildings	Technolo gical equipme nt	The rest capital assets	origination of capital assets	Advance payment.	Total
Balance SHEET value 31.12.2007.LVL	675 489	816 011	134 294	46 018		1 671 812
to put into operation	1173	32548	7118			40939
Shift	267	32165	16842	12662		61834
Purchase prices 31.12.2008.	676395	816594	124570	33356		1650915
Deprecation 31.12.2007.	281 249	616 547	75 495	0		973 291
Calculated	9986	29977	13199			53062
exclude	267	31991	16842			49100
correction	-118					-118
Depreciation 31.12.2008.	290850	614533	71871			0 977254
Balance sheet value 31.12.2007.	394 240	199 464	58 799	46 018		698 521
Balance sheet value 31.12.2008.	385545	202061	52699	33356		673661

Fixed assets (EUR)

	plots, buildings	Technolo gical equipme nt	The rest capital assets	origination of capital assets	Advance payment.	Total
Balance SHEET value 31.12.2007.	961134	1161079	191083	65478		2378774
to put into operation	1669	46312	10128	0		58251
Shift	380	45767	23964	18016		87982
Purchase prices 31.12.2008.	0 0 962423	0 0 1161909	0 0 177247	0 0 47461		0 0 2349040
Deprecation 31.12.2007.	0 400181	0 877267	0 107420	0 0		0 1384868
Calculated	14209	42653	18780	0		75500
exclude	380	45519	23964	0		69863
correction	-168	0	0	0		-168
Depreciation 31.12.2008.	0 0 413842	0 0 874402	0 0 102263	0 0 0		0 0 1390507
Balance sheet value 31.12.2007.	0 560953	0 283812	0 83663	0 65478		0 993906
Balance sheet value 31.12.2008.	548581	287507	74984	47461		958533

Cadastre value of the buildings

Property	Cadastre No.	Cadastre value LVL	Cadastre value EUR	balance sheet value LVL	balance sheet value EUR
Coal – woodchip place-shed	64051010122011	3536	5031	974	1386
Joinery building	64054010122012	9529	13558	6023	8570
The main building	64050100122001	31968	45486	9680	13773
Production building No.2	64050100122002	15758	22422	5287	7523
Engineering-technical building	64050100122003	7885	11219	1815	2582
Building of Grinding shop, Electroplating shop and Clubhouse	64050100122005	42921	61071	21949	31231
Repair shop	64050100122006	25977	36962	13756	19573
Storehouse of electrolytic components	64050100122007	49772	70819	3578	5091
Boiler house	64050100122010	18336	26090	37975	54034
Aid post of factory	64050100122013	6824	9710	3546	5045
Warehouse	64020100122014	37071	52747	13722	19525
Warehouse	64050100122015	12146	17282	288	408
The main production building with compressor substation	64050100122016	172927	246053	208500	296669
Office building	64050100122017	23445	33359	9680	13773
Neutralization building	64050100122018	2821	4014	10579	15053
Gatehouse	64050100122019	722	1027	0	0
Sawmill building	64050100122020	7514	10691	2087	2970
Transformer substation	64050100220021	3211	4569	1399	1991
Plot:, Zingberga street 1, Aizpute 5621 m2	64050100008	11242	15996	3100	4411
Total		483605	688108	353938	503608

7. Advance payment for goods.

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Latvija Statoil SIA	405	576	76	108
KIN KEI HARDWARE INDUSTRIES	18983	27011	30573	43501
Total	19388	27587	30649	43610

8. Trade debtors

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Trade debtors accounting value	164352	233852	140996	200619
Provisions doubtful debt	5639	8024	1835	2611
Trade debtors net value	158713	225828	139161	198008

Provisions change

	Trade debtors(LVL)	Trade debtors EUR)
Provisions 31.12.20067	1835	2611
Provisions decrease	0	0
provisions increase	3804	5413
Provisions 31.12.2008	5639	8024

9. Other debtors .

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
The overpaid taxes	792	1127	378	538
Value added tax	0	0	897	1276
Personnel debts	97	138	103	147
Public utilities payment	3290	4681	2360	3358
Other debts	855	1217	958	1363
Total	5034	7163	4696	6682

10. Deferred expenses.

	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
subscription	230	327	150	214
accident insurance	714	1016	466	663
Other deferred expenses	0	0	190	270
Total	944	1343	806	1147

11. Money resources

.

	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Money resources in cash department	266	378	496	706
Money resources in bank	9599	16358	26981	38390
Total	9865	14036	27477	39096

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 equates)of share capital belongs to A/S “KURZEMES
ATSLEGA 1’’, reg.40003253124.

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

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

.

13. Revaluation reserve.

Item	Revaluation reserve (LVL)	Revaluation reserve (EUR)
Balance 31.12.2007	9142	13008
increase	6455	9185
decrease	0	0
Balance 31.12.2008	15597	22193

14. PROVISIONS

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Provisions for not used holiday	16079	22878	27805	39563
Total	16079	22878	27805	39563

15. Other creditors (long term)

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Total other creditors(long term)	3625	5158	30922	43998
Short-term part			19301	27463
Long-term part net			11621	16535
i.f.				0
DnB NORD Līzings	3625	5158	7787	11080
Nordic Environment Finance Corporation			3834	5455

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

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
A.S "KURZEMES ATSLĒGA" reģ.nr..40003123254	0	0	25537	36336

17. Deferred tax liabilities

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Deferred tax liabilities	51419	73163	40880	58167
Incomes of reduction Deferred tax liabilities	5161	7343	10539	14995
Total	56580	80506	51419	73162

18 Deferred income (long term)

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Financing from funds ERAF	7455	10608	11183	15912

19. Other creditors (short term.)

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
DnB NORD Līzings	4163	5923	3967	5645
Nordic Environment Finance Corporation	3833	5454	15334	21818
Total	7996	11377	19301	27463

20. Leasing liabilities.

Item	31.12.2008. LVL	31.12.2008.EUR
SIA DnB NORD Līzings		
I. Short-term part 2009	4164	5925
		0
II. Long-term part 2010	3623	5155
Leasing liabilities total (long term)	3623	5155
Leasing liabilities total	7787	11080

21. Bank credit (short term)

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
AS DnB NORD BANKA	57200	81388	59700	84945

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)

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
A.S "KURZEMES ATSLĒGA" reģ.nr..40003123254	27375	38951	9311	13248

23. Movement taxes 2008. LVL

Kind of taxes	balance 31.12.2007. LVL	calculated 2008.g. LVL	paid s 2008.g. LVL	To direct for other taxes LVL	balance 31.12.2008. LVL
Obligatory payments of the state social insurance	13423	161281	151215		23489
Income tax of inhabitants	6054	65974	67423		4605
value added tax	2174	36096	28077		10193
real estate tax	0	5232	4034		1198
Enterprise income tax	-203	-589			-792
Tax to natural resources	-175	883	706		2
Business risk fee	62	473	532		3
Total	21335	269350	251987		38698

i.a.

Overpayment taxes 792

Liability taxes 39490

Movement taxes 2008. EUR

Kind of taxes	balance 31.12.2007. LVL	calculated 2008.g. LVL	paid s 2008.g. LVL	To direct for other taxes LVL	balance 31.12.2008. LVL
Obligatory payments of the state social insurance	19099	229482	215161		33420
Income tax of inhabitants	8614	93873	95934		6553
value added tax	3093	51360	39950		14503
real estate tax	0	7444	5740		1704
Enterprise income tax	-289	-838			-1127
Tax to natural resources	-249	1256	1004		3
Business risk fee	88	673	756		5
Total	30356	383250	358545		55061

Int.al.:

Overpayment taxes 1127

Liability taxes 56188

24. The rest of creditors.

Kind of creditors	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Wages for December	18423	26214	22488	31998
harm recompense	890	1266	1023	1456
Deduction from wages	0	0	816	1161
Other creditors	1255	1786	1195	1700
Total	20568	29266	25522	36315

25. Deferred income

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Proceeds of the part of ERDF funding	3728	5304	3728	5304

26. Accrued liabilities.

Item	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Expenses of annual accounts audit of the year 2007. Certified auditors' company KAPITĀLS LLC.	0	0	1000	1423
Expenses of audit of the year 2008. LLC "Revidentu serviss"	600	854	0	0
JSC Latvenergo	5718	8136	0	
Total	6318	8990	1000	1423

Total remuneration LLC "Revidentu Serviss" for auditing of the annual accounts of the year 2008 makes 1416 LVL (VAT included)

27. Transactions with associated persons

Name of the associated person	Materials purchased from associated person in 2008.g.LVL	Materials purchased from associated person in 2008.g.EUR
JSC "KURZEMES ATSLĒGA" Registration No. 40003123254	59493	84651
Among it		
Long-term debts to associated enterprise		
Short-term debts to associated enterprise	27375	38951

28. Financial risk management.

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

Financial Risks

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

Foreign currency risk

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

Interest rate risk

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

Credit risk

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

Appendices for profit and loss account

29.Net sales

Modus operandi	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Incomings from production of locks and ironmongery	1742457	2479293	1932942	2750329
Incomings from rendering of services	24459	34802	21767	30971
Total:	1766916	2514095	1954709	2781300

The distribution of net sales by countries

		<i>sales proceeds</i>		<i>sales proceeds</i>	
		2008.g. (Thousand LVL)	2007.g.(Thousand LVL)	2008.g.(Thousand EUR)	2007.g.(Thousand EUR)
1	Latvia	980.2	1075.6	1394.7	1530.4
1	Lithuania	355.9	405.5	506.4	577.0
2	Ukraine	84.1	153.1	119.7	217.8
3	Estonia	125.8	123.7	179.0	176.0
4	Russia	101.1	123.0	143.9	175.0
5	Germany	16.1	11.8	22.9	16.8
6	Finland	2.8	5.1	4.0	7.3
7	Kyrgyzstan	31.8	56.9	45.2	81.0
8	Uzbekistan	69.1	0	98.3	0
	Total:	1766.9	1954.7	2514.1	2781.3

30. Production costs of sales.

The main elements of expenses	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Material costs	925103	1316303	1164847	1657428
Wages	366263	521145	385777	548911
Obligatory payments of the state social insurance	87123	123965	92003	130908
Electrical energy	67550	96115	60656	86306
Costs of depreciation of fixed	53062	75500	51621	73450
The rest of expenses	74088	105418	96055	136674
Expenses in total	1573189	2238446	1850959	2633677
Correction of expenses		0		
Changes of remains of unfinished production	28970	41221	-17405	-24765
Changes of remains of self-made punches, molds and materials	-27024	-38452	-9985	-14207
Changes of remains of complete product	23554	33514	-60361	-85886
Changes of remains self-made fixed assets	-20993	-29870	-27170	-38659
Total	1577696	2244859	1736038	2470160

31.. Distribution expenses

The main elements of expenses	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Wages	13034	18546	16616	23642
Social expenses	3105	4418	3954	5626
The rest of expenses	8415	11973	5615	7989
Total	24554	34937	26185	37257

32.. Administration expenses.

The main elements of expenses	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Wages	112243	159707	121049	172237
Social expenses	25943	36914	28045	39904
The rest of expenses	11765	16740	12718	18096
Provisions	600	854	1000	1423
Total	150551	214215	162812	231660

33. The rest of incomes for economic activity

Sort of revenue	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Sales of current assets	30342	43173	17130	24374
Incomes from exchange rate fluctuations	1982	2820	0	0
The rest of incomes	11726	16685		
Others income	4659	6629	6837	9728
Total	48709	69307	23967	34102

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

	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
Expenses for social sphere	3760	5350	3887	5531
Expenses, unrelated with economic activity, donations	13651	19424	13551	19281
average from exchange rate fluctuations.	0	0	7752	11030
Revaluation reserve	0	0	0	0
harm recompense	13180	18753	12980	18469
Other expenses	3804	5413	0	0
Total	34395	48940	38170	54311

35. Interest, interest cover

	31.12.08. LVL	31.12.08. EUR	31.12.07. LVL	31.12.07. EUR
interest	8066	11477	5530	7868
interest cover	646	919	552	786
Total	8712	12396	6082	8654

3. Report of Direction.

The modus operandi of joint stock company “KURZEMES ATSLĒGA 1” in 2008 was unchanged, the enterprise continues production of door locks and ironmongery, fittings for furniture, wrought iron for gates and fences, technological equipment and so on.

A/S “KURZEMES ATSLĒGA 1” Share capital are 918144 LVL, net sales - 1766.9 thousand LVL, retained earnings 9353.-LVL Earnings per stock 0.01 LVL, 0.02 EUR

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Net sales in comparison with the last year has decreased for 9,7 %

. The volume of sold products has divided as follows:

- The sales in Latvian market: - 55,5%
- Export – 44,5%

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 December 31, 2008 was 177, the average earnings for the 2008 was 259.00 LVL. The average number of personnel in 2007 was 188, the average earnings – 236 LVL. The average earnings in comparison with corresponding period of previous year had increased on 9,7%.

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.

AS “KURZEMES ATSLĒGA 1” Management report for year 2009

After receiving non-audited figures of last year and analysis of last quarter of year 2008, board of the company has set the following targets for the year 2009:

1. develop the plan (and implement) to remarkably reduce the costs which are related to administrative apparatus;
2. perform the optimization of the production:
 - a. with less human resources achieve higher output capacity;
 - b. optimize the production processes – actions;
 - c. implement into the production computerized Manufacturing Planning System for easier production overview, production planning, inventory supervision as well as financial report supervision.

3. perform active marketing activities to acquire new markets, by taking the part in the international fairs and trade missions, as well as by such activities enlarge the market share in local, Latvian market
4. develop new products and product lines in cooperation with independent designers
5. reduce costs which are related to the central heating in Winter time with 50%
6. make the agreement with cooperation partners for the raw material purchases, which will allow to reduce raw material purchase costs for at least 10% as it has been now.

As Kurzemes Atslega 1 is the only one in Latvia locks, its mechanisms, handles etc. product manufacturer and the trade mark MFR is recognized not only in Latvia, during year 2009 will be a number of activities made to reach such financial and production results in year 2010, as were in year 2007, taking into consideration the global economical situation.

Calculation of indices of the Financial results

Liquidity ratio.

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

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

$$\text{Year 2008} \quad (805277 : 249259) = 3.23$$

$$\text{Year 2007} \quad (873764 : 263607) = 3.31$$

(Ratio norm 1-2.)

Quick ratio =

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

$$\text{Year 2008} \quad (174557 : 249259) = 0.70$$

$$\text{Year 2007} \quad (172140 : 263607) = 0.7$$

(Ratio norm 0,7-0,8)

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

Year 2008 (9865 : 249259) = 0.04

Year 2007 (27477 : 263607) = 0.10

(Ratio norm 0,2-0,25)

Liability ratio.

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

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

Year 2008 (316919 : 1531543) = 0.21

Year 2007 (363366 : 1573908) = 0.23

(Ratio norm <0,5)

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

Year 2008 (316919 : 1198545) = 0.26

Year 2007 (363366 : 1182737) = 0.31

(Ratio norm <1)

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

Year 2008 (1198545 : 1531543) = 0.78

Year 2007 (1182737 : 1573908) = 0.75

(Minimum ratio 0.5)

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

Year 2008 (316919 : 1198545) = 0.26

Year 2007 (363366 : 1184735) = 0.31

(Ratio norm < 0.7)

Activity ratio.

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

Year 2008 (1577696: 666172) = 2.4

Year 2007 (1736038 : 662610) = 2.6

Profitability ratios:

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

Year 2008 (9353 X100: 1766916) = 0.53 %

Year 2007 (-8597 x 100: 1954709) = -0.44 %

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

Year 2008 (9353 X100: 1190641) = 0.8 %

Year 2007 (-8597 X100: 1196847) = -0.72 %

Profit sharing suggested by board

Board of the company suggests to shift the profit in amount of 9353 LVL for development of the enterprise and not to pay out the dividends.

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Chairman of the Board Eriks Mikštas

Member of the Board Aldis Ozols

Member of the Board Modris Moisejs

April 24, 2009

April 24 2009

Aizpute

Statement of responsibility of direction.

Audited report of 2008 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 2008 bears the Board of joint stock company "KURZEMES ATSLEGA 1".

The Board of AS "KURZEMES ATSLEGA 1":

Chairman of the Board	Eriks Mikštas
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Member of the Board	Aldis Ozols
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Member of the Board	Modris Moisejs
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TRANSLATION

INDEPENDENT AUDITORS' REPORT**To the Shareholders of
KURZEMES ATSLĒGA 1 AS****Report on the Financial Statements**

We have audited the accompanying financial statements on pages 4 to 25 of KURZEMES ATSLĒGA 1 AS which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended 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 the requirements of the Annual Accounts Act of the Republic of Latvia. 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 as adopted by the Latvian Association of certified auditors. 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 accompanying financial statements give a true and fair view of the financial position of KURZEMES ATSLĒGA 1 AS as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Annual Accounts Act of the Republic of Latvia.

Report on the Management Report

We have read the Management Report set from pages 26 to 30 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2008.

Certified auditors' company
Revidentu serviss SIA
Audit company licence No. 15



Mag.sc.soc., Aivars Rutkis
Certified auditor, Certificate No. 18
Chairperson of the Board

Liepāja, Latvia, 24.04.2009

24.04.2009, L.1.-18