



A/S Valmieras Stikla Skiedra

*2004 Annual report prepared in
accordance with Latvian statutory requirements
and International Financial Reporting Standards
and Independent Auditors' Report*

A/S VALMIERAS STIKLA SKIEDRA

TABLE OF CONTENTS

	PAGE
ANCILLARY INFORMATION	3
MANAGEMENT REPORT	4
INDEPENDENT AUDITORS' REPORT	5
FINANCIAL STATEMENTS:	
BALANCE SHEETS	7 - 8
STATEMENTS OF PROFIT AND LOSS	9
STATEMENTS OF SHAREHOLDERS' EQUITY	10
STATEMENTS OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12 - 26

A/S VALMIERAS STIKLA SKIEDRA

ANCILLARY INFORMATION

COMPANY NAME	Valmieras Stikla Skiedra
LEGAL STATUS	Joint Stock Company
REGISTRATION NUMBER, PLACE AND DATE	No. 000303167 Riga, 18 December 1996
TYPE OF BUSINESS	Production of glass fiber products
ADDRESS	13 Cempu Street, Valmiera, LV- 4201, Latvia
THE BOARD	Chairman of the Board: Andris Oskars Brutāns, president Members of the Board: Andre Heinz Schwiontek, vicepresident Wilfried Queißer Karl Heinz Will Imants Saulītis Berndt Preißler Friedhelm Schwender
THE COUNCIL	Chairman of the Council: Jürgen Preiss-Daimler Members of the Council: Inārs Poļaks Andris Bērziņš Hans Peter Cordts Guntis Strazds
REPORTING YEAR	1 January 2004 - 31 December 2004
PRIOR REPORTING YEAR	1 January 2003 - 31 December 2003
AUDITORS AND THEIR ADDRESSES	Deloitte & Touche Audits Ltd. License no. 43 1 Doma square (legal address) 2 Biskapa gate (mailing address), Riga, LV-1050, Latvia Inguna Staša Sworn Auditor Certificate no. 145

MANAGEMENT REPORT

The Company's primary business is the manufacture and sale of glass marbles, fibreglass and fibreglass products. The Company is also involved in activities related to servicing its primary operations, such as trading and barter operations, intermediation; export operations and other activities provided in the Company's charter.

In 2004, the Company's sales amounted to LVL 26,771,724 compared to LVL 19,854,884 in 2003 - an increase of LVL 6,916,840 or 34,8%. Compared to budget, sales increased by LVL 4,452,724 or 20,0%. The sales increase can be explained by the increase in turnover of investments during the privatization process including the successful implementation of one-stage fibreglass production, new product development, improvement of production and sales process, and a favourable exchange rate for exports.

The table below shows the fibreglass products, which were produced in 2004, and their respective share of total fibreglass sales:

Fibreglass nets and ravings	40,7%
Fibreglass fabrics	49,3%
Other	10,0%

98% of total sales were exports. The Company exported to 28 countries of which EU countries constituted 72,9%, North America – 17,3% and others – 9,8%.

The profit for 2004 was LVL 1,955,004, compared to LVL 862,588 in 2003. The increase in net profit was LVL 1,092,416 or 126,6 % and compared to budget the increase was LVL 559,004 or 40%.

According to share holders meeting decision on 29 May, 2004, there were paid out dividends to companys' shareholders in amount of 484,1 TLVL based on 2003 financial year results.

The value of 1 share of A/S Valmieras Stikla Skiedra listed in Riga Stock Exchange increased by LVL 1.13 or 134.5% in 2004, i.e., from LVL 0.84 as of 30.12.2003 till LVL 1.97 as of 31.12.2004.

As at 31 December 2004, the share capital of Jsc "Valmieras Stikla Šķiedra" was LVL 23,903,205.

The Company has made provisions for doubtful debts, for vacations, for bonuses to board and council members and deferred tax.

As of 31 December 2004, the Company had 937 employees. There was a reduction in the number of employees in administration and those contracted for maintenance works.

In 2004 the Company invested 7,647.9 TLVL in development and modernization of manufacturing. In 2004 the Company has successfully started to implement the Development concept for 2004 till 2008. The goals of Development concept and the investment projects planned are:

- increase in manufacturing capacity;
- reduction of costs;
- improvement of work organization,
- development of new products,
- search for new markets.

The Company plans to invest in several large projects, affecting all production units and technological transitions.

The Company's budgeted sales for 2005 are 32,829.6 TLVL net profit are LVL 2,480.0 TLVL. Planned investments in fixed assets and their modernization for 2005 are LVL 2,646.5 TLVL.

Andris Oskars Brutāns
Chairman of the Board
15 April 2005

INDEPENDENT AUDITORS' REPORT

Translation from Latvian

To the shareholders of Valmieras Stikla Skiedra AS:

We have audited the accompanying financial statements of Valmieras Stikla Skiedra AS ("the Company") for the years ended 31 December 2004 and 2003, which are presented on pages 6 to 26. The audited financial statements include the balance sheets as of 31 December 2004 and 2003 and the related statements of profit and loss, cash flows and changes in shareholders' equity for the years ended 31 December 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and 2003, and the results of its operations, cash flows and changes in shareholders' equity for the years ended 31 December 2004 and 2003 in accordance with International Financial Reporting Standards, the Latvian law "On the Annual Reports of Enterprises" and Latvian accounting standards.

We have read the management report for the year ended 31 December 2004 as shown on page 4 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2004.

Deloitte & Touche Audits Ltd.
Licence no. 43

Ian Dent
Audit Director

Inguna Staša
Sworn Auditor
Certificate no. 145

Riga, Latvia
15 April 2005

A/S VALMIERAS STIKLA SKIEDRA

**BALANCE SHEETS
AS OF 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
ASSETS			
Non – current assets			
Intangible assets			
Patents and licenses		43,292	24,655
Other intangible assets		521,222	793,163
Total intangible assets	3	564,514	817,818
Fixed assets			
Buildings		4,633,451	3,990,998
Equipment and machinery		10,947,903	9,261,656
Other fixed assets		343,669	484,430
Construction in progress		2,969,889	817,586
Advance payments for fixed assets		735,692	23,045
Total fixed assets	4	19,630,604	14,577,715
Total non-current assets		20,195,118	15,395,533
Current assets			
Inventory			
Raw materials		6,838,439	5,819,058
Work in process		1,440,937	1,143,885
Finished goods		2,510,611	2,471,042
Advance payments for goods		101,992	168,986
Total inventory		10,891,979	9,602,971
Accounts receivable			
Due from related parties	5	3,152,425	2,445,262
Other receivables	6	246,788	225,059
Deferred expenses	8	179,663	160,784
Total accounts receivable		3,578,876	2,831,105
Cash and cash equivalents	9	373,286	677,880
Total current assets		14,844,141	13,111,956
TOTAL ASSETS		35,039,259	28,507,489

The accompanying notes on pages 11 to 26 are an integral part of these financial statements.

The financial statements were signed on 15 April 2005 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA

**BALANCE SHEETS
AS OF 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
LIABILITIES & SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	10	23,903,205	23,903,205
Reserves:			
statutory reserves		234,533	234,533
Retained earnings:			
a) retained earnings		1,589,651	1,211,179
b) current year profit		1,955,004	862,588
Total shareholders' equity		27,682,393	26,211,505
Provisions			
Deferred tax		1,110,497	673,310
Other provisions		207,722	66,269
Total provisions	11	1,318,219	739,579
Non current liabilities			
Due to credit institutions	12	1,054,500	-
Finance lease	13	46,465	-
Total non current liabilities		1,100,965	-
Current liabilities			
Due to credit institutions	12	2,728,545	13,579
Lease obligations	13	17,986	-
Advance payments from customers		46,819	30,147
Trade payables	14	1,643,088	870,090
Taxes and social security payments	15	232,314	189,145
Other accounts payable	16	268,930	186,837
Derivative financial instruments	17	-	266,607
Total current liabilities		4,937,682	1,556,405
Total liabilities		6,038,647	1,556,405
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		35,039,259	28,507,489

The accompanying notes on pages 11 to 26 are an integral part of these financial statements.

The financial statements were signed on 15 April 2005 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA

**STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
Sales	18	26,771,724	19,854,884
Change in inventory value		336,624	598,397
Other operating income	19	275,819	168,242
Material expenses	20	(11,601,237)	(8,306,749)
Personnel expenses	21	(4,781,267)	(4,292,431)
Depreciation and amortization	22	(2,579,947)	(2,247,483)
Other operating expenses	23	(5,876,181)	(4,385,646)
Profit from operations		2,545,535	1,389,214
Interest income and similar income	24	1,667	14,343
Interest expense and similar expenses	25	(155,011)	(322,322)
Profit before taxes		2,392,191	1,081,235
Corporate income tax	26	(437,187)	(218,647)
Net profit		1,955,004	862,588
Basic earnings per share	27	0.0818	0.0361

The accompanying notes on pages 11 to 26 are an integral part of these financial statements.

The financial statements were signed on 15 April 2005 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA**STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

	Share capital LVL	Statutory reserves LVL	Retained earnings LVL	Total LVL
As of 31 December 2002	23,903,205	192,449	1,731,327	25,826,981
Transfer to reserves	-	42,084	(42,084)	-
Dividends paid	-	-	(478,064)	(478,064)
Current year profit	-	-	862,588	862,588
As of 31 December 2003	23,903,205	234,533	2,073,767	26,211,505
Dividends paid	-	-	(484,116)	(484,116)
Current year profit	-	-	1,955,004	1,955,004
As of 31 December 2004	23,903,205	234,533	3,544,655	27,682,393

The accompanying notes on pages 11 to 26 are an integral part of these financial statements.

The financial statements were signed on 15 April 2005 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

	Notes	2004 LVL	2003 LVL
OPERATING ACTIVITIES			
Profit before taxes		2,392,191	1,081,235
Adjustments:			
Depreciation and amortization	22		2,247,483
Depletion of precious metals	20	2,579,947	139,322
Provisions for vacations and bonuses for board and council members	11	79,168	(9,412)
Loss from disposal of fixed assets		141,453	(15,781)
Changes in value of derivative financial instruments		(38,648)	(15,781)
Calculated interest income	24	-	266,607
Calculated interest expenses	25	(987)	(3,042)
Changes in operating assets and liabilities:			
Inventory		56,427	11,794
Accounts receivable		(1,368,176)	(1,067,154)
Accounts payable		(747,771)	322,499
Cash provided by operating activities		<u>630,046</u>	<u>119,123</u>
		3,723,650	3,092,674
INVESTING ACTIVITIES			
Purchase of fixed assets		(7,340,721)	(2,920,782)
Proceeds from sale of fixed assets		62,631	25,780
Received interest income		987	3,042
Net cash used in investing activities		<u>(7,277,103)</u>	<u>(2,895,002)</u>
FINANCING ACTIVITIES			
Received loan from credit institution		2,109,000	-
Received credit line		10,863,095	-
Paid credit line		(9,189,050)	-
Paid finance lease		-	(4,611)
Dividends paid		(484,116)	(478,064)
Interest expenses paid		(50,070)	(11,794)
Net cash provided by / (used in) financing activities		<u>3,248,859</u>	<u>(494,469)</u>
Net decrease in cash		(304,594)	(293,755)
Cash at the beginning of the year	9	677,880	971,635
Cash at the end of the year	9	<u><u>373,286</u></u>	<u><u>677,880</u></u>

The accompanying notes on pages 11 to 26 are an integral part of these financial statements.

The financial statements were signed on 15 April 2005 by:

Andris Oskars Brutāns
Chairman of the Board

Jürgen Preiss-Daimler
Chairman of the Council

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

1. GENERAL INFORMATION

The Company is registered as a joint stock company in the Enterprise Register in the Republic of Latvia. The principal activities of the Company are the production of fiberglass and fiberglass products.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Latvian law "On the Annual Reports of Enterprises" and Latvian accounting standards. The financial statements have been prepared on the basis of accounting data in accordance with the legislation of the Republic of Latvia. The financial statements have been prepared on the historical cost accounting basis.

The accompanying financial statements are presented in the national currency of Latvia, the lat ("LVL").

Foreign currencies

Transactions denominated in foreign currencies are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rate used for the principal currencies as of 31 December are as follows:

	2004	2003
EUR	0.7030	0.6740
GBP	0.9960	0.9600
RUR	0.0186	0.0184
SEK	0.0782	0.0740
USD	0.5160	0.5410

Intangible assets

Intangible assets are stated at historical cost, less accumulated amortisation.

Patents registered by the Company relate to specific products produced. The production run is estimated to last for 5 years and the capitalized cost is written off over the same period using the straight line method of amortization as a portion of cost of sales.

Other intangible assets include intellectual know how for a direct melt facility put into operation in 2001. Know-how is amortized over 5 years using the straight-line method.

Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss statement during the financial period in which they are incurred.

Fixed asset depreciation is calculated using the asset's historical cost as the basis. Depreciation is calculated using the straight-line method applying the following depreciation rates:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

Buildings	5-6.7%
Equipment and machinery	10-25%
Vehicles and other fixed assets	10-40%

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Inventory

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Where necessary, provision is made for obsolete, slow moving and defective stock.

Platinum plates

The balance sheet account "Raw materials" includes platinum plates that are used in the manufacturing process. The average technical depletion of these plates in 2004 was 1.9 % based on historical information. The plates are used on average from 220 to 430 days before being sent for replacement. Replaced plates are returned to the manufacturing process. The plates are stated at the lower of the cost of the metal from which they are made and net realizable value

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with credit institutions with term which doesn't exceed 90 days.

Revenue recognition

The Company recognizes revenue from product sales when goods have been shipped. A significant portion of the Company's sales agreements are concluded with prices quoted in foreign currencies. These amounts are converted to Latvian lats using the exchange rate of the Bank of Latvia on the date of shipment of the goods sold.

Taxation

Deferred taxation is provided on all temporary timing differences arising between the accounting and taxation treatment of income and expenses. The deferred taxation liability is calculated based on the tax rates that are expected to apply when temporary timing differences reverse. The principal temporary timing differences arise from the differing accounting and taxation depreciation rates of fixed assets. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

Provisions for vacations

Provisions for vacations are calculated by multiplying the average employee salary by the number of unused vacation days at the end of the year.

Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

An operating lease is a lease other than a finance lease. Total payments made under operating leases are charged to the profit and loss statement on a straight-line basis over the period of the lease.

Financial instruments

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

Derivative financial instruments

In 2003, the Company uses foreign currency forward contracts to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Such derivatives are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognized in the income statement as they arise.

In 2004, the Company did not use financial instruments.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Provisions for doubtful debts are made in case there is an objective evidence that the Company will not be able to collect the debts in full amount according to initially determined repayment terms.

Trade payables

Trade payables are stated at their nominal value.

Fair value

Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Where in the opinion of the management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are accounted for and disclosed in the notes to the financial statements.

Related party transactions

Related parties are the shareholders of the Company, members of the Board and Council, their close family members and companies, in which the above mentioned persons have significant influence.

Reclassification

Certain amounts in the previous year's financial statements have been reclassified to conform with the current year presentation.

Use of estimates

International Financial Reporting Standards and the legislation of the Republic of Latvia require that in preparing the financial statements, the management of the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of off-balance sheet assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

3. INTANGIBLE ASSETS

	Patents and licenses	Other intangible assets	Total
	LVL	LVL	LVL
HISTORICAL COST			
As of 31 December 2002	1,194,938	1,359,709	2,554,647
Additions	19,818	-	19,818
As of 31 December 2003	1,214,756	1,359,709	2,574,465
Additions	28,583	-	28,583
As of 31 December 2004	1,243,339	1,359,709	2,603,048
ACCUMULATED AMORTISATION			
As of 31 December 2002	1,185,678	294,604	1,480,282
Charge for the year	4,423	271,942	276,365
As of 31 December 2003	1,190,101	566,546	1,756,647
Charge for the year	9,945	271,942	281,887
As of 31 December 2004	1,200,046	838,488	2,038,534
NET BOOK VALUE			
As of 31 December 2003	24,655	793,163	817,818
As of 31 December 2004	43,293	521,221	564,514

A/S VALMIERAS STIKLA SKIEDRA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

4. FIXED ASSETS

	Buildings LVL	Equipment and machinery LVL	Other fixed assets LVL	Construction in progress (CIP) LVL	Total LVL
HISTORICAL COST					
As of 31 December					
2002	4,929,540	12,558,969	1,377,338	213,671	19,079,518
Additions	-	-	256,412	2,166,677	2,423,089
Disposals	(3,857)	(52,135)	(21,338)	-	(77,330)
Transfers	463,684	1,508,559	181,437	(1,562,762)	590,918
As of 31 December					
2003	5,389,367	14,015,393	1,793,849	817,586	22,016,195
Additions	-	-	-	6,663,285	6,663,285
Disposals	(1,516)	(209,742)	(38,425)	-	(249,683)
Transfers	1,005,722	3,332,231	173,029	(4,510,982)	-
As of 31 December					
2004	6,393,573	17,137,882	1,928,453	2,969,889	28,429,797
ACCUMULATED DEPRECIATION					
As of 31 December					
2002	1,075,782	3,445,350	1,036,606	-	5,557,738
Charge for the year	325,284	1,351,803	294,031	-	1,971,118
Disposals	(2,697)	(43,416)	(21,218)	-	(67,331)
As of 31 December					
2003	1,398,369	4,753,737	1,309,419	-	7,461,525
Charge for the year	363,269	1,621,373	313,418	-	2,298,060
Disposals	(1,516)	(185,131)	(38,053)	-	(224,700)
As of 31 December					
2004	1,760,122	6,189,979	1,584,784	-	9,534,885
NET BOOK VALUE					
As of 31 December					
2003	3,990,998	9,261,656	484,430	817,586	14,554,670
As of 31 December					
2004	4,633,451	10,947,903	343,669	2,969,889	18,894,912

The registered cadastral value of property owned by the Company's as at 31 December 2004 and 2003 was LVL 2,414,963.

In 2004 accordance with commercial pledge Agreement No. VSS21.06.2004/MRG/C13A the Company has pledged property, which consists of three buildings whose net book value amounted to LVL 845,665 as of 31 December 2004 (see Note 12).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

5. TRADE RECEIVABLES

	2004	2003
	LVL	LVL
P-D Glasseiden Oschatz GmbH	2,306,765	1,933,793
P-D aitec GmbH	91,520	20,665
VITRULAN Textilglas GmbH	36,905	10,629
P-D Glasfaser GmbH Brattendorf	15,541	-
Other trade receivables	736,176	652,091
Provisions for doubtful debts	(34,482)	(171,916)
Total	<u>3,152,425</u>	<u>2,445,262</u>

For doubtful debts the Company made provisions ranging from 20 - 100% based on the estimated realizable value of these debts.

6. OTHER RECEIVABLES

	2004	2003
	LVL	LVL
VAT (see Note 15)	213,490	162,538
VAT on unpaid invoices	4,696	50,761
Natural resource tax (see Note 15)	2,656	-
Real estate tax (see Note 15)	782	-
Other receivables	53,615	41,644
Provisions for doubtful debts	(28,451)	(29,884)
Total	<u>246,788</u>	<u>225,059</u>

7. CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

	LVL
Provisions as of 31 December 2002	211,281
Decrease due to debt collection (see Note 19)	(35,172)
Increase in provisions (see Note 23)	24,611
Foreign currency exchange rate fluctuations	1,080
Provisions as of 31 December 2003	<u>201,800</u>
Decrease due to debt collection (see Note 19)	(29,803)
Written off	(78,513)
Increase in provisions (see Note 23)	2,805
Foreign currency exchange rate fluctuations	(33,356)
Provisions as of 31 December 2004	<u>62,933</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

8. DEFERRED EXPENSES

	2004 LVL	2003 LVL
Platinum plate replacement expenses	98,717	122,865
Insurance expenses	73,319	33,184
Other deferred expenses	7,627	4,735
Total	<u><u>179,663</u></u>	<u><u>160,784</u></u>

9. CASH

	2004 LVL	2003 LVL
Cash in bank	369,552	671,151
Cash on hand	3,734	6,729
Total	<u><u>373,286</u></u>	<u><u>677,880</u></u>

10. SHARE CAPITAL

The Company's registered share capital as of 31 December 2004 and 2003 was LVL 23,903,205. The Company's paid share capital registered with the Enterprise Register as of 31 December 2004 and 2003 was LVL 23,903,205 consisting of 23,897,455 ordinary shares with voting rights and 5,750 ordinary shares without voting rights. The nominal value of each share is LVL 1.

As of 31 December 2004 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	2004	2003
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
VitruLAN Textilglas GmbH	30.8%	30.8%
Skandinaviska Enskilda Banken Ab	8.0%	-
VAS VSAA	2.4%	2.4%
Nordea Bank Finland Plc	1.5%	2.8%
NCH Development Partners L.P.	-	8.5%
P.D.P. Fiberglass Consulting Ltd	-	4.6%
Other	12%	5.6%
	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

11. PROVISIONS

	2003 LVL	Provision increase / (decrease) LVL	2004 LVL
Provision for deferred tax (see Note 26)	673,310	437,187	1,110,497
Provision for vacations	66,269	(887)	65,382
Provisions for remuneration of the members of the Board and Council	-	142,340	142,340
Total	<u><u>739,579</u></u>	<u><u>578,640</u></u>	<u><u>1,318,219</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

12. DUE TO CREDIT INSTITUTIONS

	2004	2003
	LVL	LVL
Non current:		
Loan A/S "Vereinsbanka Rīga"	1,054,500	-
Current portion:		
Credit line A/S "Hansabanka"	1,674,045	13,579
Loan A/S "Vereinsbanka Rīga"	1,054,500	-
Total current	2,728,545	13,579
Total	3,783,045	13,579

On 2 April 2001 the Company signed a credit line agreement in the amount of LVL 300,000 with Hansabank to increase working capital. The credit line bears interest of 3.95% yearly.

On 14 August 2003 the term of the credit line was extended to 7 August 2004 and the credit line limit was increased to LVL 1,592,357.

On 19 July 2004 the credit line limit has been increased to EUR 4,500,000.

As a security for the credit facility, the Company has pledged inventories with the book value of LVL 10,891,979 as at 31 December, 2004. As at the balance sheet date the Company has used LVL 1,674,045 of credit line.

On 21 June, 2004 the Company signed the loan agreement No. VSS 21.06.2004./L with JSC "Vereinsbanka Rīga" in amount of EUR 3,000,000 to finance the Company's investments fixed assets. The interest rate is 3 month EURIBOR + 1.01% per year. The maturity date is 30 December 2006. The security for repayment of the loan is the real estate located at Valmiera city, Cempu street 13. The mortgage on the Real Estate has been registered in the land book for the amount LVL 2,400,000. As of 31 December 2004 the net book value of these building amounted to LVL XXX.

13. FINANCE LEASE

In July, 2004 the Company signed a finance lease agreement with SIA Vereins Leasing Riga for the purchase of four lorry loaders. The finance lease liabilities as at the date of balance sheet amounted to LVL 64,451.

	2004	2004
	LVL	LVL
	Minimum lease payments	Present value of minimum lease payments
Amounts payable under finance lease:		
Current	20,324	17,986
Non current	49,047	46,465
Total amounts payable under finance lease	69,371	64,451
Future financing charges	(4,920)	n/a
Present value of lease obligations	64,451	64,451

A/S VALMIERAS STIKLA SKIEDRA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

14. TRADE PAYABLES

	2004	2003
	LVL	LVL
P-D Glasseiden Oschatz GmbH	284,276	68,097
SIA Auttra	179,868	72,743
DBW GmbH & Co.KG	109,518	-
Saint-Gobain Vertex a.s.	87,201	-
Latvian American Shipping Line	58,949	16,431
VAS Latvenergo ZET	53,265	43,374
P-D aitec GmbH	48,066	20,355
Lindauer Dornier GmbH	44,246	12,818
DEGUSSA-HÜLS AG	34,830	-
SIA „Etiproducts”	28,902	33,734
A/s Latvijas gāze	27,104	27,148
P-D Glasseiden GmbH Brattendorf	27,090	-
SIA Metāro	25,948	8,062
Sinthomer GmbH	25,363	33,970
SIA „Valmiera-Andren”	24,760	-
Supermetal NPK	20,451	2,128
P-D Interglas Technologies S.	19,502	5,230
SIA Garants	11,976	29,845
VITRULAN Textilglas GmbH	8,104	49,360
Other	523,669	446,795
Total	1,643,088	870,090

15. TAXES AND SOCIAL SECURITY PAYMENTS

	<u>2003</u>			Transfers	Returned from the state	Paid	<u>2004</u>	
	Prepaid	Liability	Calculated				Prepaid	Liability
Natural								
resource tax	-	2,714	18,669	(5,687)*	-	(18,352)	2,656	
Real estate tax	-	131	52,203	-	-	(53,116)	782	
Social security								
payments	-	107,454	1,178,653	(1,150,541)	-	-	-	135,566
Personal								
income tax	-	78,072	786,330	-	-	(768,009)	-	96,393
Land tax	-	-	49	-	-	(49)	-	
Withholding								
tax		774	4,392	-	-	(4,811)	-	355
VAT	(162,538)	-	(2,122,232)	1,150,541	920,739	-	213,490	
Total	(162,538)	189,145	(81,936)	(5,687)	920,739	(844,337)	216,928	232,314

* A benefit of LVL 5,687 to be utilised for environmental activities within the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

16. OTHER ACCOUNTS PAYABLE

	2004	2003
	LVL	LVL
Salary	261,813	169,356
Other	7,117	17,481
Total	<u>268,930</u>	<u>186,837</u>

17. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes currency derivatives to hedge significant future transactions and cash flows. The Company is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are for Euro exchange into Lats at pre-agreed rate.

As at 31 December 2003, total notional amount of outstanding forward foreign exchange contracts that the Company has is EUR 9,250,000.

As at 31 December 2004, the Company has no transactions which are classified as derivative financial instruments.

18. SALES

	2004	2003
	LVL	LVL
Export sales:		
European Union	18,530,542	11,631,889
North America	4,677,241	2,440,388
CIS	2,277,985	1,379,902
Local sales	729,438	604,338
Other	556,518	3,798,367
Total	<u>26,771,724</u>	<u>19,854,884</u>

19. OPERATING INCOME

	2004	2003
	LVL	LVL
Sale of raw materials	76,961	59,765
Proceeds from sales of fixed asset, net	38,648	15,781
Decrease in doubtful debt provision (see Note 7)	29,803	35,172
Insurance compensation	17,573	2,194
Other	112,834	55,330
Total	<u>275,819</u>	<u>168,242</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

20. MATERIAL EXPENSES

	2004	2003
	LVL	LVL
Raw materials	9,034,440	5,816,358
Electricity	1,075,962	985,028
Ore processing costs	237,135	270,255
Natural gas	671,197	638,897
Depletion of ore	79,168	139,322
Other	503,335	456,889
Total	<u>11,601,237</u>	<u>8,306,749</u>

21. PERSONNEL EXPENSES

	2004	2003
	LVL	LVL
Salaries	3,356,961	3,104,904
Social security payments	846,835	784,545
Illness and vacation expenses	373,764	354,827
Provisions for bonuses of Board and Council	142,340	-
Other	61,367	48,155
Total	<u>4,781,267</u>	<u>4,292,431</u>

The average number of employees employed in 2004 was 971 (2003: 1,052).

22. DEPRECIATION AND AMORTIZATION

	2004	2003
	LVL	LVL
Fixed asset depreciation	2,298,060	1,971,118
Intangible asset amortization	281,887	276,365
Total	<u>2,579,947</u>	<u>2,247,483</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

23. OTHER OPERATING EXPENSES

	2004	2003
	LVL	LVL
Transportation	1,857,223	1,246,101
Commission	1,536,940	1,028,837
Service costs	644,483	439,853
Repairs	483,481	275,916
Maintenance expenses	327,356	370,952
Insurance	237,434	261,912
Business trips	205,069	187,464
Expenses relating to personnel	106,830	104,895
Communications	93,434	90,741
Leasing	72,150	67,489
Property tax	52,203	50,276
Office expenses	49,027	47,147
Selling expenses	38,983	48,194
Increase in doubtful debts (Note 7)	2,805	24,611
Other	168,763	141,258
Total	<u>5,876,181</u>	<u>4,385,646</u>

24. INTEREST INCOME AND SIMILAR INCOME

	2004	2003
	LVL	LVL
Interest income	987	3,042
Penalties paid	680	50
Net income on foreign exchange rate revaluations	-	11,251
Total	<u>1,667</u>	<u>14,343</u>

25. INTEREST EXPENSE AND SIMILAR EXPENSES

	2004	2003
	LVL	LVL
Net loss on foreign exchange rate fluctuations	98,323	-
Interest expense	56,427	11,794
Penalties paid	261	43,921
Changes in fair value of derivative financial instrument	-	266,607
Total	<u>155,011</u>	<u>322,322</u>

26. CORPORATE INCOME TAX**26 (a) Components of corporate income tax**

2004	2003
LVL	LVL

A/S VALMIERAS STIKLA SKIEDRA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

Deferred tax (see Note 11)	437,187	218,647
Total	437,187	218,647

26 (b) Reconciliation of accounting profit to tax charge:

	2004 LVL	2003 LVL
Profit before tax	2,392,191	1,081,235
Expected tax charge, applying current tax rate of 15% (2003: 19%)	358,829	205,435
Tax effect of:		
Non-deductible items	78,358	71,674
Effect of change in tax rate on deferred tax liability, 15%	-	(58,462)
Corporate income tax charge	437,187	218,647

26 (c) Net deferred tax liabilities as of end of the year:

Calculation of deferred tax:

	2004		2003	
	Temporary difference	Tax effect 15 %	Temporary difference	Tax effect 15 %
Temporary difference on depreciation of fixed assets	7,809,334	1,171,400	6,790,081	1,018,512
Temporary difference on accruals	(207,722)	(31,158)	(233,575)	(35,036)
Tax loss carry forward	(198,302)	(29,745)	(2,067,775)	(310,166)
Total	7,403,310	1,110,497	4,488,731	673,310

27. EARNINGS PER SHARE

	2004 LVL	2003 LVL
Basic earnings per share		
Average number of shares outstanding	23,903,205	23,903,205
Current year profit	1,955,004	862,588
Basic earnings per share	0.0818	0.0361

28. MANAGEMENT REMUNERATION

	2004 LVL	2003 LVL
Members of the Board:		
Salary	61,456	122,489
Social security payments	13,687	22,045
Members of the Council:		
Salary	53,180	67,741
Social security payments	11,650	10,366
Other management:		
Salary	129,537	53,388

A/S VALMIERAS STIKLA SKIEDRA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

Social security payments	20,144	12,398
Total	289,654	288,427

29. TRANSACTIONS WITH RELATED PARTIES

	Accounts receivable LVL	Accounts payable LVL	Income LVL	Expenses LVL
P-D Glasseiden Oschatz GmbH	2,306,765	284,276	17,164,445	1,105,672
P-D aitec GmbH	91,520	48,066	290,412	599,877
VITRULAN Textilglas GmbH	36,905	8,104	4,027,382	298,185
Glasfaser Brattendorf	15,541	27,090	251,813	331,550
P-D Interglas Technologies HG	-	19,502	-	57,848
P-D Management Industries Technologies	-	557	-	557
Total	2,450,731	387,595	21,734,052	2,393,689

30. OTHER INFORMATION

Platinum is recorded at cost and the balance value as at 31 December 2004 value amounts to LVL 4,202,060. According to the prices defined in London stock exchange the price as at 31 December 2004 would be LVL 8,100,510.

31. COMMITMENTS AND CONTINGENCIES

Lease commitment

On 27 November 2001 the Company signed a land lease agreement on the lease of land where its production facilities are located. The term of the agreement is 25 years and is valid to 1 December 2026. The annual rent charge is 5% of the land book value. As of 27 November 2001 the land book value of the land was LVL 300,480. According to the agreement any change in rent depends on changes in the land book value.

The total future rent payments are as follows:

Year	2004 LVL	2003 LVL
2006	15,024	15,024
2007 – 2010	60,096	60,096
Due after 2011	255,408	270,432
Total	330,528	345,552

Long – term agreements

The Company has signed three long-term agreements for the supply of goods:

The term of the agreement signed with Anikscu Kvarcas is 8 years, expiring on 31 December 2009. The agreement provides for the supply of raw materials at a fixed price.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

The long-term agreement signed with Partek Nordkalk JSC provides for the supply of milled limestone at specified prices. The term of the agreement is not specified.

The agreement with Lasselsberger GmbH has been signed for the supply of certain raw materials. The term of the agreement is 31 December 2004 and is subject to automatic extension annually.

32. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

Approximately 63% and 27% of total sales in 2004 resulted from contracts denominated in EUR and USD, respectively. The Company does not expect this share of total sales to change significantly in the near future. This arrangement exposes the Company's sales to foreign currency exchange risk, depending on the exchange rate between the reporting currency (LVL) and the USD.

The Company deals with foreign customers and suppliers, therefore significant amount of transactions are carried out in foreign currencies. In order to hedge the exposure in USD, the Company is planning to increase purchases denominated in USD.

Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with appropriate credit history. Sales to retail customers are made with short term credit.

Interest rate risk

The Company has long-term loan with variable interest rate from credit institutions; therefore it is exposed to any changes in interest rate.

Liquidity risk

The Company maintains sufficient cash funds in bank. If necessary the company uses credit facilities to meet short-term obligations.

Fair values

The non-current loans are with variable interest rate. Other liabilities and financial assets are with maturity of less one year, therefore in management's opinion there are no material difference between fair value and carrying value of the financial assets and liabilities.

33. SEGMENT REPORTING

The company's production facilities are located in one site – Cempu street 13, Valmiera. The company produces glass fiber and products made of it. Therefore in management's opinions it is impossible to identify geographical and business segments. Split of sales by geographical regions are presented in note 18.

* * * * *