

A/S VALMIERAS STIKLA SKIEDRA

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 other business activities which are related to servicing its primary operations, for example, trading and barter operations, intermediation, export and other activities set in the Company's charter.

In the first 6 months of 2005 the Company's sales amounted to TLVL 17271.7 compared to 2004 when the sales were TLVL 13887.7. The net sales increase in 2005 compared to 2004 is TLVL 3384.0 or 24.4%. Compared to the budget, sales increased by TLVL 2.3. The sales increase is related to 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 export exchange rate.

The table below shows the fibreglass products, which were produced in the first 6 months of 2005 and their respective share of total fibreglass sales:

Fibreglass nets and savings	34.2%
Fibreglass fabrics	53.9%
Other	11.9%

98% of sales in the first 6 months of 2005 were exported to 28 countries. 72.5% of total exports were sold to the countries of European Union, 18.1 to North America and 9.4% to other.

The Company's total profit for 6 months of 2005 was TLVL 1342.0, compared to TLVL 1318.0 in 2004—an increase of TLVL 24.0 or 1.8%. Compared to the budget, the profit decreased by TLVL 473.3 or 26.1%.

According to June 3, 2005 decision made during the shareholders meeting TLVL 884.4 thousand were paid out in dividends to Company's shareholders based on year 2004 financial results.

During 2005 the share value of JSC Valmieras Stikla Skiedra listed in Riga Stock Exchange increased by LVL 0.30 or 15.2%, i.e., from LVL 1.97 as of December 30, 2004 to LVL 2.27 as of June 30, 2005.

As of June 30, 2005, the share capital of JSC Valmieras Stikla Skiedra was LVL 23,903,205.

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

As of June, 2005, the Company had 932 employees. There was a decrease in the number of production workers and contractors.

In the first 6 months of 2005 the Company invested LVL 2203.8 thousand in development and modernization of manufacturing. The Company has successfully started to implement the Development concept for the years 2004 to 2008. The main goals of the Development concept and the investment projects are the following:

- 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 that will affect all production units and technological transitions.

The Company's budgeted sales for 2005 are LVL 32,829.6 thousand, net profit—LVL 2,480 thousand. During 2005, it is planned to invest LVL 2,646.5 thousand in fixed assets and their modernization.

A/S VALMIERAS STIKLA ŠKIEDRA

BALANCE SHEETS

AS OF 30 Juny 2004 AND 31 December 2004

	2005 LVL	CURRENCYN EXNANGE RATE on 30.06.2005.EUR	2004 LVL	CURRENCYN EXNANGE RATE on 31.12.2004.EUR
ASSETS				
Non-current assets				
Intangible assets				
Patents and licenses	68 373	97 286	43 292	61 582
Other intangible assets	385 251	548 163	521 222	741 425
Total intangible assets	453 624	645 449	564 514	803 007
Fixed assets				
Buildings	4 963 667	7 062 662	4 633 451	6 590 969
Equipment and machinery	14 211 499	20 221 141	10 947 903	15 573 119
Other fixed assets	521 140	741 515	343 669	488 861
Construction in progress	49 049	69 790	2 969 889	4 224 593
Advance payments for fixed assets	192 870	274 429	735 692	1 046 504
Total fixed assets	19 938 225	28 369 538	19 630 604	27 924 046
Total non-current assets	20 391 849	29 014 987	20 195 118	28 727 053
Current assets				
Inventory				
Raw materials	7 450 002	10 600 398	6 838 439	9 727 509
Work in process	1 681 709	2 392 856	1 440 937	2 049 697
Finished goods	2 226 840	3 168 508	2 510 611	3 571 282
Advance payments for goods	125 528	178 610	101 992	145 081
Total inventory	11 484 079	16 340 372	10 891 979	15 493 569
Accounts receivable				
Due from related parties	6 325 526	9 000 413	3 152 425	4 484 246
Other receivables	261 633	372 270	246 788	351 050
Deferred expenses	117 133	166 665	179 663	255 566
Total accounts receivable	6 704 292	9 539 348	3 578 876	5 090 862
Cash	699 579	995 411	373 286	530 990
Total current assets	18 887 950	26 875 132	14 844 141	21 115 421
TOTAL ASSETS	39 279 799	55 890 119	35 039 259	49 842 474

A/S VALMIERAS STIKLA ŠKIEDRA

BALANCE SHEETS

AS OF 30 Juny 2005 AND 31 December 2004

	2005 LVL	CURRENCY EXNANGE RATE on 30.06.2005.EUR	2004 LVL	CURRENCY EXNANGE RATE on 31.12.2003.EUR
LIABILITIES & SHAREHOLDERS EQUITY		0.702804		0.703
Shareholders equity				
Share capital	23 903 205	34 011 197	23 903 205	34 001 714
Reserves:				
statutory reserves	234 533	333 710	234 533	333 617
Retained earnings:				
a)retained earnings	2 660 237	3 785 176	1 589 651	2 261 239
b)current year profit	1 342 042	1 909 554	1 955 004	2 780 945
Total shareholders equity	28 140 017	40 039 637	27 682 393	39 377 515
Provisions				
Deferred tax	1 260 497	1 793 526	1 110 497	1 579 654
Other provisions	341 920	486 508	207 722	295 479
Total provisions	1 602 417	2 280 034	1 318 219	1 875 134
Non current liabilities				
Due to credit institutions			1 054 500	1 500 000
Finance lease	46 465	66 114	46 465	66 095
	46 465	66 114	1 100 965	1 566 095
Current liabilities				
Due to credit institutions	5 742 646	8 171 049	2 728 545	3 881 287
Lease obligations	8 996	12 800	17 986	25 585
Advance payments from customers	13 999	19 919	46 819	66 599
Trade payables	3 291 187	4 682 937	1 643 088	2 337 252
Taxes and social security payments	218 206	310 479	232 314	330 461
Other accounts payable	204 541	291 036	268 930	382 546
Accounting period dividend	11 325	16 114		
Total current liabilities	9 490 900	13 504 334	4 937 682	7 023 730
Total liabilities	9 537 365	13 570 448	6 038 647	8 589 825
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	39 279 799	55 890 119	35 039 259	49 842 474

A/S VALMIERAS STIKLA ŠKIEDRA

**STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDEN 30 JUNY 2005 AND 2004**

	2005	CURRENCYN EXNANGE RATE	2004	CURRENCYN EXNANGE RATE
	LVL	on 30.06.2005.EUR	LVL	on 30.06.2004.EUR
		0.702804		0.663
Sales	17 271 660	24 575 358	13 887 702	20 946 760
Change in inventori value	-42 998	-61 181	-272 991	-411 751
Other operating income	77 502	110 275	108 955	164 336
Material expenses	-8 499 198	-12 093 269	-6 045 706	-9 118 712
Personnel expenses	-2 581 965	-3 673 805	-2 190 703	-3 304 228
Depreciation and amortization	-1 487 028	-2 115 850	-1 149 670	-1 734 042
Other operatingexpenses	-3 209 889	-4 567 261	-2 832 179	-4 271 763
Profit from operations	1 528 084	2 174 268	1 505 408	2 270 600
Interest income and similar income	37 913	53 945	57 668	86 980
Interestexpense and similarexpenses	-73 955	-105 228	-6 853	-10 336
Profit before taxes	1 492 042	2 122 985	1 556 223	2 347 244
Corporate income tax	-150 000	-213 431	-238 200	-359 276
Net profit	1 342 042	1 909 554	1 318 023	1 987 968
Basic earnings per share	0.0561	0.0799	0.0551	0.0832

A/S VALMIERAS STIKLA SKIEDRA

STATEMENTS OF CASH FLOWS

	2005 Year 6 months LVL	2005 Year 6 months EUR	2004 Year 6 months LVL	2004 Year 6 months EUR
I OPERATING ACTIVITIES		0.702804		0.663
1. Profit before taxes	1 492 042	2 122 985	1 556 223	2 347 244
Adjustments:				
2. Depreciation and amortization	1 487 028	2 115 850	1 149 670	1 734 042
3. Depletion of precious metals	48 850	69 507	60 812	91 722
4. Provisions for vacations and bonuses for board and council members	235 200	334 659	143 500	216 440
5. Loss from disposal of fixed assets	-1 893	-2 693	-5 434	-8 196
6. Calculated interest income	-0 217	-0 309	-0 406	-0 612
7. Calculated interest expenses	70 044	99 664	6 592	9 943
Changes in operating assets and liabilities:				
1. Inventory	-592 100	-842 482	-152 360	-229 804
2. Accounts receivable	-3 125 416	-4 447 066	-1 628 787	-2 456 692
3. Accounts payable	1 583 710	2 253 416	424 267	639 920
Cash provided by operating activities	1 197 248	1 703 530	1 554 077	2 344 008
II INVESTING ACTIVITIES				
1. Purchase of fixed assets	-1 872 205	-2 663 908	-1 852 027	-2 793 404
2. Proceeds from sale of fixed assets	11 242	15 996	7 187	10 840
3. Received interest income	0 217	0 309	0 406	0 612
Net cash provided by /(used) financing activities	-1 860 746	-2 647 603	-1 844 434	-2 781 952
III FINANCING ACTIVITIES				
1. Received loan from credit institution	5 184 062	7 376 256	—	—
2. Paid credit institution	-4 481 846	-6 377 092	-13 579	-20 481
3. Received credit line	16 359 762	23 277 844	2 235 350	3 371 569
4. Paid credit line	-15 102 377	-21 488 747	-1 714 493	-2 585 962
5. Paid finance lease	-8 991	-12 793	—	—
6. Dividends paid	-884 418	-1 258 413	-484 116	-730 190
7. Interest expenses paid	-76 401	-108 709	-6 592	-9 943
Net cash provided by/(used in) financing activities	989 791	1 408 346	16 570	24 992
Net decrease in cash	326 293	464 273	-273 787	-412 952
Cash at the beginning of the year	373 286	531 138	677 880	1 022 443
Cash at the end of the period	699 579	995 411	404 093	609 492

A/S "Valmieras stikla šķiedra "

Statements of shreholders"equity
In 6 months of 2005

	rate of exchange				0.702804			
	Share capital LVL	Statutory reserves LVL	Retained earnings LVL	Total LVL	Share capital EUR	Statutory reserves EUR	Retained earnings EUR	Total EUR
As of 31 December 2003	23 903 205	234 533	2 073 767	26 211 505	34 011 197	333 710	2 950 705	37 295 612
Current 6 Months2004profit			1 318 023	1 318 023			1 875 378	1 875 378
As of 30.juny 2004	23 903 205	234 533	3 391 790	27 529 528	34 011 197	333 710	4 826 082	39 170 989
Dividends paid			-484 116	-484 116			-688 835	-688 835
Current VII-XII 2004 profit			636 981	636 981			906 342	906 342
As of 31.december 2004	23 903 205	234 533	3 544 655	27 682 393	34 011 197	333 710	5 043 590	39 388 497
Current 6 months 2005			1 342 042	1 342 042			1 909 554	1 909 554
Dividends paid			-884 418	-884 418			-1 258 413	-1 258 413
As of 30 juny 2005	23 903 205	234 533	4 002 279	28 140 017	34 011 197	333 710	5 694 730	40 039 637

Andris Oskars Brutāns
 Chairman of the Board

ANNEX

1. SHARE CAPITAL

The company's registered share capital as of 30 June 2005 and 2004 was LVL 23.903.205. The Company's paid share capital registered with the Enterprise Register as of 30 June 2005 and 2004 was 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 LVL1.

As of 30 June 2005 and 2004 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	2005	2004
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
Vitrulan Textilglas GmbH	30.8%	30.8%
Skandinaviska Enskilda Banken Ab	7.8%	6.5%
VAS VSAA	2.4%	2.4%
Nordea Bank Finland Plc	2.6%	2.8%
P.D.P.Fiberglass Consulting Ltd	4.6%	4.6%
Other	6.5%	7.6%
	100.00%	100.0%

2. INFORMATION FOR "PROFIT OR LOSS ACCOUNT"

1. MATERIAL EXPENSES

	2005 6Months	EUR	2004 6 months	EUR
LVL		0.702804		0.663
Raw materials	7 147 562	10 170 064	4 421 038	6 668 232
Electricity	564 490	803 197	540 090	814 615
Ore processing costs	132 035	187 869	139 767	210 810
Natural gas	355 942	506 460	339 702	512 371
Depletion of ore	48 990	69 706	60 812	91 722
Other	250 179	355 973	544 297	820 961
Total	8 499 198	12 093 269	6 045 706	9 118 712

2. PERSONNEL EXPENSES

Salaries	1 720 867	2 448 573	1 614 019	2 434 418
Social security payments	441 732	628 528	409 266	617 294
Illness and vacation expenses	147 310	209 603	142 938	215 593
Provisions for bonuses of Board and Council	235 200	334 659	—	—
Other	36 856	52 441	24 480	36 923
Total	2 581 965	3 673 805	2 190 703	3 304 228

3. DEPRECIATION AND AMORTIZATION

Fixed asset depreciation	1 343 997	1 912 335	1 009 195	1 522 164
Intangible asset amortization	143 031	203 515	140 475	211 878
Total	1 487 028	2 115 850	1 149 670	1 734 042

4. OTHER OPERATING EXPENSES

Transportation	1 080 808	1 537 851	880 434	1 327 955
Commission	818 681	1 164 878	621 322	937 137
Service costs	392 595	558 612	235 039	354 508
Maintenance expenses	143 923	204 784	159 554	240 655
Insurance	101 791	144 836	151 904	229 116
Business trips	91 470	130 150	109 767	165 561
Expenses relating to personnel	43 125	61 361	49 931	75 311
Communications	38 029	54 110	41 238	62 199
Leasing	30 350	43 184	32 826	49 511
Property tax	21 038	29 934	24 084	36 326
Office expenses	29 127	41 444	25 194	38 000
Selling expenses	31 277	44 503	16 218	24 462
Increase in doubtful debts	17 000	24 189	25 000	37 707
Other	370 675	527 423	459 668	693 315
Total	3 209 889	4 567 261	2 832 179	4 271 763

3. TRADE RECEIVABLES

	2005 6Months	EUR	2004 6 months	EUR
LVL		0.702804		0.663
P-D Glasseiden Oschatz GmbH	3 865 118	5 499 567	3 014 021	4 546 035
P-D aites GmbH	89 389	127 189	42 378	63 919
Vitrolan Textilglas DmbH	677 642	964 198	289 293	436 339
P-D Glasfaser GmbH Brattendorf	—		37 646	56 781
Other trade receivables	1 693 377	2 409 458	709 271	1 069 790
	<u>6 325 526</u>	<u>9 000 413</u>	<u>4 092 609</u>	<u>6 172 864</u>

Andris Oskars Brutāns

Chairman of the Board