



***A/S Valmieras Stikla Skiedra***

*Annual report for the year 2006  
prepared in accordance with Latvian statutory requirements  
and International Financial Reporting Standards  
as adopted by the European Union  
and Independent Auditor's Report*

**A/S VALMIERAS STIKLA SKIEDRA**

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**A/S VALMIERAS STIKLA SKIEDRA**

**ANCILLARY INFORMATION**

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COMPANY NAME	Valmieras Stikla Skiedra
LEGAL STATUS	Joint Stock Company
REGISTRATION NUMBER, PLACE AND DATE	No. 40003031676 Riga, 30 September 1991
TYPE OF BUSINESS	Production of glass fibre 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, Vice-president Wilfried Queißer Karl Heinz Will Imants Saulītis Bernd Preißler Friedhelm Schwender
THE COUNCIL	Chairman of the Council: Jürgen Preiss-Daimler  Members of the Council: Andris Bērziņš Hans Peter Cordts Guntis Strazds Inārs Poļaks (till 12.05.2006) Aivars Lošmanis (from 12.05.2006)
REPORTING YEAR	1 January 2006 - 31 December 2006
PRIOR REPORTING YEAR	1 January 2005 - 31 December 2005
AUDITORS AND THEIR ADDRESS	Deloitte Audits Latvia 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**

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The Company's primary business is the manufacture and sale of fibreglass and fibreglass products. The Company has been operating in international fibreglass market for 14 years and in 2006 the production was sold in 29 countries. 70% of the total production is sold to companies in the European Union.

Since the year 2000 the Company operates in accordance with DIN EN ISO 9001:2000 quality management certificate, which was issued and is audited every 3 years by a German Quality management system certification company located in Frankfurt. In the year 2006 after the audit, the Company received the renewed certificate.

In 2006, the Company's sales amounted to LVL 34.986 million compared to 2005 when the sales were LVL 32.688 million. The net sales increase is LVL 2.298 million or 7.03 %. The sales increase is related to the increase in volume of production and the number of customers in Europe. In 2006 the sales increase was achieved by the successful operation of fibreglass manufacturing and processing plants, the high qualification of employees, new product development, and improvement of production and sales processes.

In order to improve the production capacity in October 2006 A/S Valmieras Stikla Skiedra opened a new fibreglass and textile processing plant. The total investments of the Company into construction, machinery and equipment of the new plant amounted to LVL 26 million.

In 2006 A/S Valmieras Stikla Skiedra continued to provide products manufactured from purchased semi-finished materials. In such way the Company entered in the market and searched for selling opportunities for products of recently developed fibreglass and textile plant in 2007 and the following years.

The table below shows the fibreglass products, which have been produced in 2006, and their respective share of total fibreglass sales:

Fibreglass nets and ravings	35%
Fibreglass fabrics	53%
Other	12%

The net profit for 2006 was LVL 719.68 thousand, comparatively in 2005 the net profit was LVL 1.237 millions. The decrease in net profit is related to an increase of actual expenditure for certain types of costs (transportation, semi-manufactured goods, depreciation and amortisation, services received from other companies in Latvia, loss on currency exchange rate fluctuations etc.) which exceeded planned amounts.

According to a decision made during the shareholders meeting on 12 May 2006, a part of the net profit for 2005 was paid out as dividends to the Company's shareholders. The dividends amounted to 1.3 santimes per share.

The share value of A/S Valmieras Stikla Skiedra listed in Riga Stock Exchange fluctuated during the year from 1.70 LVL to LVL 2.68 per share. As at 30 December 2006 the share was traded for LVL 2.36.

As of 31 December 2006, the share capital of A/S Valmieras Stikla Šķiedra was LVL 23,903,205.

During 2006, the Company was successfully continuing 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.

Investments planned for 2006 were made and referred to all plants and technologies of the Company. The Company's budgeted sales for 2007 are LVL 44.301 million and a net profit of LVL 1.445 million. In 2008 the Company plans sales of LVL 54 million and a net profit of LVL 3.2 million.

**MANAGEMENT REPORT**

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Total budgeted investments into fixed assets and modernisation for 2007 equal LVL 1.2 million.

There have been no significant events subsequent to the end of the reporting year that might have a material influence on the Company's financial statements for the year ended 31 December 2006.

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Andris Oskars Brutāns  
Chairman of the Board

5 March 2007

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "Valmieras Stikla Skiedra":

### ***Report on the financial Statements***

We have audited the accompanying financial statements of AS "Valmieras Stikla Skiedra", which are presented on pages from 7 to 27. The audited financial statements comprise the balance sheet as of 31 December 2006 and the profit and loss 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 International Financial Reporting Standards as adopted by the European Union and Latvian law On Annual reports. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above give a true and fair view of the financial position of AS "Valmieras Stikla Skiedra" as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the Latvian law On Annual reports.

### ***Report on the management report***

We have read the management report for the year ended 31 December 2006, which is presented on pages from 4 to 5 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 2006.

Deloitte Audits Latvia SIA  
License No. 43

Kenneth Taylor Hansen  
Authorised representative

Riga, Latvia  
5 March 2007

Inguna Staša  
Sworn auditor  
Certificate no. 145

**A/S VALMIERAS STIKLA SKIEDRA**

**BALANCE SHEET  
AS OF 31 DECEMBER 2006**

	Notes	31.12.2006 LVL	31.12.2005 LVL
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Patents and licenses		70,451	77,066
Other intangible assets		-	249,280
<b>Total intangible assets</b>	3	<b>70,451</b>	<b>326,346</b>
<b>Fixed assets</b>			
Land and buildings	4	11,537,020	4,990,321
Equipment and machinery	4	28,051,799	13,706,596
Other fixed assets	4	629,646	472,842
Construction in progress	4	1,485,598	2,134,933
Advance payments for fixed assets		1,202,196	396,700
<b>Total fixed assets</b>		<b>42,906,259</b>	<b>21,701,392</b>
<b>Total non-current assets</b>		<b>42,976,710</b>	<b>22,027,738</b>
<b>Current assets</b>			
<b>Inventory</b>			
Raw materials	5	6,447,390	6,924,987
Work in progress		2,258,584	2,360,142
Finished goods	6	2,812,695	3,683,622
Advance payments for inventories		50,505	117,309
<b>Total inventory</b>		<b>11,569,174</b>	<b>13,086,060</b>
<b>Accounts receivable</b>			
Trade receivables	7	4,463,165	4,533,998
Other receivables	8	559,619	250,752
Deferred expenses	10	398,780	194,295
<b>Total accounts receivable</b>		<b>5,421,564</b>	<b>4,979,045</b>
Cash and cash equivalents	11	567,917	243,753
<b>Total current assets</b>		<b>17,558,655</b>	<b>18,308,858</b>
<b>TOTAL ASSETS</b>		<b>60,535,365</b>	<b>40,336,596</b>

*The accompanying notes on pages 12 to 27 are an integral part of these financial statements.*

The financial statements were signed on 5 March 2007 by:

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Andris Oskars Brutāns  
Chairman of the Board

\_\_\_\_\_  
Jürgen Preiss-Daimler  
Chairman of the Council

**A/S VALMIERAS STIKLA SKIEDRA**

**BALANCE SHEET  
AS OF 31 DECEMBER 2006**

	Notes	31.12.2006 LVL	31.12.2005 LVL
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
<b>Shareholders' equity</b>			
Share capital	12	23,903,205	23,903,205
Reserves		-	234,533
Retained earnings:			
a) retained earnings		3,821,456	2,660,237
b) current year profit		719,681	1,237,428
<b>Total shareholders' equity</b>		<b>28,444,342</b>	<b>28,035,403</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Due to credit institutions	13	25,300,919	2,563,544
Finance lease	14	10,484	28,465
Deferred tax	28	686,886	1,342,253
<b>Total non-current liabilities</b>		<b>25,998,289</b>	<b>3,934,262</b>
<b>Current liabilities</b>			
Due to credit institutions	13	1,631,914	5,401,197
Finance lease	14	17,986	17,986
Advance payments from customers		59,492	15,349
Trade payables	15	3,427,835	2,194,430
Taxes and social security payments	16	291,539	293,444
Other accounts payable	17	339,815	206,316
Accrued liabilities	18	147,072	238,209
Deferred income		1,400	-
Derivatives	19	175,681	-
<b>Total current liabilities</b>		<b>6,092,734</b>	<b>8,366,931</b>
<b>Total liabilities</b>		<b>32,091,023</b>	<b>12,301,193</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>60,535,365</b>	<b>40,336,596</b>

*The accompanying notes on pages 12 to 27 are an integral part of these financial statements.*

The financial statements were signed on 5 March 2007 by:

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Andris Oskars Brutāns  
Chairman of the Board

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Jürgen Preiss-Daimler  
Chairman of the Council



**A/S VALMIERAS STIKLA SKIEDRA****STATEMENT OF PROFIT AND LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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	Notes	2006 LVL	2005 LVL
Revenues	20	34,986,103	32,688,396
Changes in inventories		(972,485)	2,092,217
Work performed by the entity and capitalised		287,768	108,008
Other operating income	21	149,252	137,383
Raw materials and consumables	22	(17,207,364)	(17,628,325)
Personnel expenses	23	(6,029,349)	(5,511,498)
Depreciation and amortization	24	(3,480,657)	(3,118,542)
Other operating expenses	25	(6,929,806)	(7,131,358)
<b>Profit from operations</b>		<b>803,462</b>	<b>1,636,281</b>
Interest and similar income	26	1,770	61,641
Interest and similar expenses	27	(740,918)	(175,733)
<b>Profit before taxes</b>		<b>64,314</b>	<b>1,522,189</b>
Corporate income tax	28	655,367	(284,761)
<b>Net profit</b>		<b>719,681</b>	<b>1,237,428</b>
<b>Basic and diluted earnings per share</b>	29	<b>0,0301</b>	<b>0,0518</b>

*The accompanying notes on pages 12 to 27 are an integral part of these financial statements.*

The financial statements were signed on 5 March 2007 by:

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Andris Oskars Brutāns  
Chairman of the Board

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Jürgen Preiss-Daimler  
Chairman of the Council

**A/S VALMIERAS STIKLA SKIEDRA****STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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	<b>Share capital LVL</b>	<b>Reserves LVL</b>	<b>Retained earnings LVL</b>	<b>Total LVL</b>
<b>As of 31 December 2004</b>	<b>23,903,205</b>	<b>234,533</b>	<b>3,544,655</b>	<b>27,682,393</b>
Dividends paid	-	-	(884,418)	(884,418)
Current year profit	-	-	1,237,428	1,237,428
<b>As of 31 December 2005</b>	<b>23,903,205</b>	<b>234,533</b>	<b>3,897,665</b>	<b>28,035,403</b>
Transfer to retained earnings	-	(234,533)	234,533	-
Dividends paid	-	-	(310,742)	(310,742)
Current year profit	-	-	719,681	719,681
<b>As of 31 December 2006</b>	<b>23,903,205</b>	<b>-</b>	<b>4,541,137</b>	<b>28,444,342</b>

*The accompanying notes on pages 12 to 27 are an integral part of these financial statements.*

The financial statements were signed on 5 March 2007 by:

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Andris Oskars Brutāns  
Chairman of the Board

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Jürgen Preiss-Daimler  
Chairman of the Council

**A/S VALMIERAS STIKLA SKIEDRA**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 LVL	2005 LVL
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		64,314	1,522,189
Adjustments:			
Depreciation and amortization	24	3,480,657	3,118,542
Depletion of precious metals	22	97,602	92,587
Profit or loss from disposal of fixed assets		4,608	64,261
Interest income	26	(1,770)	(516)
Interest expense		423,449	181,047
Changes in fair value of derivatives		175,681	-
<b>Changes in operating assets and liabilities:</b>			
Inventory		1,224,857	(2,092,241)
Accounts receivable and other assets		(442,519)	(1,400,169)
Accounts payable and other liabilities		1,657,974	270,938
Accruals for vacations and bonuses for board and council members		(91,137)	30,487
Corporate income tax paid		(53,005)	-
<b>Cash provided by operating activities</b>		<b>6,540,711</b>	<b>1,787,125</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets and intangible assets, advance payments		(24,258,594)	(5,026,686)
Proceeds from sale of fixed assets		64,928	11,263
Received interest income		1,770	516
<b>Net cash used in investing activities</b>		<b>(24,191,896)</b>	<b>(5,014,907)</b>
<b>FINANCING ACTIVITIES</b>			
Received loans from credit institution	13	22,737,375	10,136,558
Paid loans to credit institutions	13	(1,686,732)	(7,995,282)
Change in credit line, net	13	(2,082,551)	2,040,420
Finance lease payments	14	(17,981)	(17,982)
Dividends paid		(310,742)	(884,418)
Interest expenses paid		(664,020)	(181,047)
<b>Net cash provided by financing activities</b>		<b>17,975,349</b>	<b>3,098,249</b>
Net increase (decrease) in cash and cash equivalents		324,164	(129,533)
Cash and cash equivalents at the beginning of the year		243,753	373,286
<b>Cash and cash equivalents at the end of the year</b>	11	<b>567,917</b>	<b>243,753</b>

*The accompanying notes on pages 12 to 27 are an integral part of these financial statements.*

The financial statements were signed on 5 March 2007 by:

\_\_\_\_\_  
Andris Oskars Brutāns  
Chairman of the Board

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Jürgen Preiss-Daimler  
Chairman of the Council

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2006**

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**1. GENERAL INFORMATION**

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

**2. ACCOUNTING POLICIES**

*Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the Latvian law "On the Annual Reports" and Latvian accounting standards.

International Financial Reporting Standards as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the financial statements had they been endorsed by the EU at the balance sheet date.

The Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU that are relevant to its operations and effective for accounting periods beginning 1 January 2006. The adoption of the new and revised Standards and Interpretations have had no material impact on the financial statements of the Company.

The Company has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- Disclosures and the amendments to IAS 1: Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2007);
- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007);
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006); and
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).

The application of these standards and new interpretations will result in additional disclosures and will not have a material impact on the Company's financial statements.

The financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of financial assets and financial liabilities held at fair value through profit or loss and all financial derivatives to fair value.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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exchange on the balance sheet date. The applicable rates used for the principal currencies as of 31 December are as follows:

	<b>2006</b>	<b>2005</b>
EUR	0.702804	0.702804
GBP	1.048	1.021
RUR	0.0203	0.0206
SEK	0.0778	0.0747
USD	0.536	0.593

***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 amortised over the same period using the straight line method of amortization.

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.

Land is not depreciated. For other fixed assets depreciation is calculated using the asset's historical cost as the basis. Depreciation is calculated using the straight-line method applying the following annual depreciation rates:

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.

***Inventories***

Inventories are stated at the lower of cost and net realizable value. Costs comprise 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 selling and distribution.

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

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand and demand deposits with credit institutions with initial term which does not exceed 90 days at inception.

***Revenue recognition***

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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Sales of goods are recognised when goods are shipped.

Revenue represents the total value of goods sold net of discounts and sales related taxes.

Interest income is recognized in the statement of profit and loss on accrual basis of accounting using the effective interest rate method.

***Taxation***

Deferred tax is provided on all temporary timing differences arising between the accounting and tax treatment of income and expenses. The deferred tax 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 tax depreciation rates of fixed assets and unused tax losses. Where a deferred tax asset arises, this is only recognized in the financial statements where its recoverability is foreseen with reasonable certainty.

***Accrual for vacations***

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

***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

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.

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.

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Finance expenses related to borrowings are expensed in the period to which they are attributable. Amounts are disclosed in the profit and loss statement as interest and similar expense.

***Trade receivables***

Trade receivables are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

***Impairment of financial assets***

The Company assesses, at each balance sheet date, whether there is objective evidence that a financial asset is impaired.

The Company assesses all financial assets on individual basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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measured as the difference between the asset's carrying amount and estimated present value of future cash flows.

***Trade payables***

Trade payables are stated at amortised cost.

***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 parties***

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

***Use of estimates and critical accounting judgements***

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.

The following are the critical judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Company reviews the estimated useful lives of property, plant and equipment;
- the Company reviews property, plant and equipment and assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;
- the Company assesses recoverability of unused tax losses.

***Emission rights***

The Company is a participant of CO<sub>2</sub> emission trading scheme and has received an allocation of allowances for emission of greenhouse gas from the Latvian authorities. The allowances are initially presented as intangible assets and recorded at cost. The value is decreased proportionally to actual annual usage of the allowance. If the actual emission exceeds the amount of allowance, the shortfall is recognized in current liabilities and profit and loss statement. Liabilities are measured based on additional allowances required and estimated purchase cost.

***Derivative financial instruments***

Interest rate swaps are contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps involve the exchange of fixed and floating interest payments. The notional amount on which the interest payments are based is not exchanged.

In accordance with the requirements of IAS 39 all derivative contracts are carried on balance sheet accounts at their fair value: all contracts with positive value in assets and all contracts with negative value in liabilities. The fair value of interest related derivative contract is determined based on discounted cash flow calculations. Changes in the fair value of derivative financial instruments are recognized in the statement of profit and loss as they arise.

**NOTES TO THE FINANCIAL STATEMENTS  
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**3. INTANGIBLE ASSETS**

	Patents and licenses	Other intangible assets	Total
	LVL	LVL	LVL
HISTORICAL COST			
<b>As of 31 December 2004</b>	<b>1,243,338</b>	<b>1,359,709</b>	<b>2,603,047</b>
Additions	50,413	-	50,413
<b>As of 31 December 2005</b>	<b>1,293,751</b>	<b>1,359,709</b>	<b>2,653,460</b>
Additions	15,187	-	15,187
<b>As of 31 December 2006</b>	<b>1,308,939</b>	<b>1,359,709</b>	<b>2,668,648</b>
ACCUMULATED AMORTISATION			
<b>As of 31 December 2004</b>	<b>1,200,046</b>	<b>838,487</b>	<b>2,038,533</b>
Charge for the year	16,639	271,942	288,581
<b>As of 31 December 2005</b>	<b>1,216,685</b>	<b>1,110,429</b>	<b>2,327,114</b>
Charge for the year	21,803	249,279	271,082
<b>As of 31 December 2006</b>	<b>1,238,488</b>	<b>1,359,709</b>	<b>2,598,197</b>
NET BOOK VALUE			
<b>As of 31 December 2005</b>	<b>77,066</b>	<b>249,280</b>	<b>326,346</b>
<b>As of 31 December 2006</b>	<b>70,451</b>	<b>-</b>	<b>70,451</b>



**A/S VALMIERAS STIKLA SKIEDRA**

**NOTES TO THE FINANCIAL STATEMENTS  
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**4. FIXED ASSETS**

	Land	Buildings	Equipment and machinery	Other fixed assets	Construction in progress	Total
	LVL	LVL	LVL	LVL	LVL	LVL
<b>HISTORICAL COST</b>						
<b>As of 31 December 2004</b>	-	<b>6,393,573</b>	<b>17,137,882</b>	<b>1,127,329</b>	<b>2,969,889</b>	<b>27,628,673</b>
Additions	-	-	-	-	5,315,265	5,315,265
Disposals	-	(92,391)	(47,294)	(21,684)	-	(161,369)
Transfers	242,936	620,923	4,909,568	376,794	(6,150,221)	-
<b>As of 31 December 2005</b>	<b>242,936</b>	<b>6,922,105</b>	<b>22,000,156</b>	<b>1,482,439</b>	<b>2,134,933</b>	<b>32,782,569</b>
Additions	-	-	-	-	23,678,481	23,678,481
Disposals	-	(1,121)	(449,304)	(29,395)	-	(479,820)
Transfers	-	7,043,365	16,869,387	415,064	(24,327,816)	-
<b>As of 31 December 2006</b>	<b>242,936</b>	<b>13,964,349</b>	<b>38,420,239</b>	<b>1,868,108</b>	<b>1,485,598</b>	<b>55,981,230</b>
<b>ACCUMULATED DEPRECIATION</b>						
<b>As of 31 December 2004</b>	-	<b>1,760,122</b>	<b>6,189,979</b>	<b>783,660</b>	-	<b>8,733,761</b>
Charge for the year	-	442,211	2,140,251	247,499	-	2,829,961
Disposals	-	(27,613)	(36,670)	(21,562)	-	(85,845)
<b>As of 31 December 2005</b>	-	<b>2,174,720</b>	<b>8,293,560</b>	<b>1,009,597</b>	-	<b>11,477,877</b>
Charge for the year	-	496,350	2,455,250	257,974	-	3,209,574
Disposals	-	(805)	(380,370)	(29,109)	-	(410,284)
<b>As of 31 December 2006</b>	-	<b>2,670,265</b>	<b>10,368,440</b>	<b>1,238,462</b>	-	<b>14,277,167</b>
<b>NET BOOK VALUE</b>						
<b>As of 31 December 2005</b>	<b>242,936</b>	<b>4,747,385</b>	<b>13,706,596</b>	<b>472,842</b>	<b>2,134,933</b>	<b>21,304,692</b>
<b>As of 31 December 2006</b>	<b>242,936</b>	<b>11,294,084</b>	<b>28,051,799</b>	<b>629,646</b>	<b>1,485,598</b>	<b>41,704,063</b>

The registered cadastral value of property owned by the Company as at 31 December 2006 was LVL 8,268,002 (2005: 3,168,986).

The registered cadastral value of land owned by the Company was LVL 72,881.

The Company has pledged all non-current assets with a total carrying amount as of 31 December 2006 of LVL 41,774,514 (2005: LVL 21,631,038), see Note 13.

**5. RAW MATERIALS**

Raw materials include platinum plates that are used in the manufacturing process. The average technical depletion of these plates in 2006 was 2.85% (2005 – 2.25 %). 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. As at 31 December 2006 the carrying amount was LVL 3,947,495 (2005 – LVL 4,062,022). According to the metal prices quoted in London stock exchange as at 31 December 2006 the market price of the precious metals was LVL 14,777,872 (2005 – LVL 12,958,899).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**


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**6. FINISHED GOODS**

As of 31 December 2006 the Company has provided an allowance of LVL 60,560 to decrease the inventory value to net realizable value. As of 31 December 2006 the carrying amount of inventories stated at net realizable value comprised LVL 702,347.

**7. TRADE RECEIVABLES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
P-D Glasseiden Oschatz GmbH	2,203,797	2,607,833
VITRULAN Textilglas GmbH	180,224	193,993
P-D aitec GmbH	22,455	4,369
Other trade receivables	2,080,805	1,749,386
Allowances for doubtful receivables	(24,116)	(21,583)
<b>Total</b>	<b><u>4,463,165</u></b>	<b><u>4,533,998</u></b>

The Company made provisions for doubtful receivables ranging from 20 - 100% based on the estimated realizable value of these receivables.

**8. OTHER RECEIVABLES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
VAT overpayment (see Note 16)	403,409	130,744
VAT on unpaid invoices	74,045	101,530
Natural resource tax (see Note 16)	16,602	-
Real estate tax (see Note 16)	2,598	-
Other receivables	87,945	45,266
Allowance for doubtful receivables	(24,980)	(26,788)
<b>Total</b>	<b><u>559,619</u></b>	<b><u>250,752</u></b>

**9. CHANGES IN ALLOWANCE FOR DOUBTFUL RECEIVABLES**

	<b>LVL</b>
<b>Allowance as of 31 December 2004</b>	<b>62,933</b>
Decrease due to collection (see Note 21)	(14,555)
Foreign currency exchange rate fluctuations	(7)
<b>Allowance as of 31 December 2005</b>	<b><u>48,371</u></b>
Decrease due to collection (see Note 21)	(1,840)
Written-off debts	(1,905)
Charged to statement of profit and loss	4,470
<b>Allowance as of 31 December 2006</b>	<b><u>49,096</u></b>

**A/S VALMIERAS STIKLA SKIEDRA****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**10. DEFERRED EXPENSES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Platinum plate replacement expenses	214,975	48,642
Insurance expenses	152,535	92,886
Other deferred expenses	31,270	52,767
<b>Total</b>	<b>398,780</b>	<b>194,295</b>

**11. CASH AND CASH EQUIVALENTS**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Cash in bank	562,003	238,946
Cash on hand	5,914	4,807
<b>Total</b>	<b>567,917</b>	<b>243,753</b>

**12. SHARE CAPITAL**

The Company's registered share capital as of 31 December 2006 and 2005 was LVL 23,903,205.

The Company's paid share capital as of 31 December 2006 and 2005 consisted of 11,494,250 publicly listed bearer shares and 12,408,955 private placement ordinary shares, all with equal rights. The nominal value of each share is LVL 1.

As of 31 December 2006 and 2005 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	<b>2006</b>	<b>2005</b>
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
Vitrulan Textilglas GmbH	30.8%	30.8%
Skandinaviska Enskilda Banken Ab	3.3%	7.6%
P.D.P. Fiberglass Consulting Ltd	4.6%	4.6%
VAS VSAA	2.4%	2.4%
Nordea Bank Finland Plc	4.0%	2.6%
Braune Beatrix	2.6%	0.2%
Other	7.0%	6.7%
	<b>100.0%</b>	<b>100.0%</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**
**13. DUE TO CREDIT INSTITUTIONS**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Non-current part:		
Loan A/S "Hansabanka"	25,300,919	2,563,544
<b>Total non-current part</b>	<b>25,300,919</b>	<b>2,563,544</b>
Current part:		
Credit line A/S "Hansabanka"	1,631,914	3,714,465
Loan A/S "Hansabanka"	-	1,686,732
<b>Total current part</b>	<b>1,631,914</b>	<b>5,401,197</b>
<b>Total</b>	<b>26,932,833</b>	<b>7,964,741</b>

On 2 April 2001 the Company signed a credit line agreement with A/S Hansabanka to increase working capital. On 19 July 2004 the credit line limit has been increased to EUR 4,500,000. In August 2006 the credit line limit was increased to EUR 8,000,000. The fixed rate of the credit line is 3.29% for used amount and 1% for unused amount.

As a security for the credit line, the Company has pledged inventories with the carrying amount of LVL 11,569,174 as at 31 December 2006 (2005: LVL 13,086,060).

As of 31 December 2006 the Company has signed the following loan agreement:

<b>Date</b>	<b>Agreement No.</b>	<b>Principal amount, EUR</b>	<b>Interest rate</b>	<b>Repayment term</b>
10.06.2005.	05-049975-IN	36,000,000	3 month EURIBOR + 0.9%	30.12.2018.

According to mortgage agreement No.05-04995-IN/3, the loans are secured by the fixed and intangible assets of the Company with the carrying amount as of 31 December 2006 of LVL 41,774,514.

**14. FINANCE LEASE**

In July 2004 the Company signed a finance lease agreement with SIA HVB Leasing for the purchase of four lorry loaders. On 31 December 2006 and 2005 the liabilities according to agreement were as follows:

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
Amounts payable under finance lease:				
Current	18,824	17,986	19,580	17,986
Non current	10,634	10,484	29,453	28,465
<b>Total amounts payable under finance lease</b>	<b>29,458</b>	<b>28,470</b>	<b>49,033</b>	<b>46,451</b>
Future financing charges	(988)	n/a	(2,582)	n/a
<b>Present value of lease obligations</b>	<b>28,470</b>	<b>28,470</b>	<b>46,451</b>	<b>46,451</b>

**A/S VALMIERAS STIKLA SKIEDRA**

**NOTES TO THE FINANCIAL STATEMENTS  
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**15. TRADE PAYABLES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
For services received	1,858,782	1,268,381
For goods received	1,422,870	926,049
For fixed assets	146,183	-
<b>Total</b>	<b><u>3,427,835</u></b>	<b><u>2,194,430</u></b>

**16. TAXES AND SOCIAL SECURITY PAYMENTS**

	<b>2005</b>		<b>Calculated</b>	<b>Transfers</b>	<b>Returned from the state</b>	<b>Paid</b>	<b>2006</b>	
	<b>Over-payment</b>	<b>Liability</b>					<b>Over-payment</b>	<b>Liability</b>
Natural resource tax	-	4,505	27,515	13,195	-	15,318	-	3,507
Real estate tax	-	2,418	62,068	-	-	67,083	2,598	-
Social security payments	-	127,756	1,499,252	1,468,000	-	284	-	158,724
Personal income tax	-	105,419	1,014,278	-	-	990,628	-	129,069
Land tax	-	-	1,142	-	-	1,142	-	-
Enterprise risk duty	-	341	2,959	-	-	3,061	-	239
VAT	130,744	-	(2,985,565)	(1,475,537)	1,237,363	-	403,409	-
Corporate income tax	-	53,005	-	16,602	-	53,005	16,602	-
<b>Total</b>	<b><u>130,744</u></b>	<b><u>293,444</u></b>	<b><u>(378,351)</u></b>	<b><u>22,260</u></b>	<b><u>1,237,363</u></b>	<b><u>1,130,521</u></b>	<b><u>422,609</u></b>	<b><u>291,539</u></b>

\* A tax credit of LVL 13,195 to be utilised for environmental activities within the Company.

**17. OTHER ACCOUNTS PAYABLE**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Salary	335,554	195,212
Other	4,261	11,104
<b>Total</b>	<b><u>339,815</u></b>	<b><u>206,316</u></b>

**18. ACCRUED LIABILITIES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Accrual for remuneration of the members of the Board and Council	104,900	178,008
Accrual for vacations	41,027	60,201
Accruals for natural resource tax	1,145	-
<b>Total</b>	<b><u>147,072</u></b>	<b><u>238,209</u></b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**19. DERIVATIVES**

The Company has signed an interest rate swap contract to hedge the risks associated with variable interest rate fluctuations with A/S SEB Unibanka. The interest swap involves the exchange of floating EURIBOR interest payments and fixed payments. The contract expires on 31 December 2018.

As at 31 December 2006, total notional amount of interest rate swap contract is EUR 36,000,000, the fair value amounts to a liability of LVL 175,681 as at 31 December 2006.

**20. REVENUES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Export sales:		
European Union	24,508,567	22,761,001
North America	5,332,179	5,575,770
CIS	2,348,340	2,533,662
Local sales	1,187,205	639,216
Other countries	1,609,812	1,178,747
<b>Total</b>	<b>34,986,103</b>	<b>32,688,396</b>

**21. OTHER OPERATING INCOME**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Sale of raw materials	67,943	67,781
Income from sale of fixed assets	15,643	-
Decrease in allowance for doubtful receivables (see Note 9)	1,840	14,555
Insurance compensation	-	279
Other	63,826	54,768
<b>Total</b>	<b>149,252</b>	<b>137,383</b>

**22. RAW MATERIALS AND CONSUMABLES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Raw materials	13,744,026	14,928,422
Electricity	1,214,257	1,156,479
Natural gas	1,151,320	764,983
Ore processing costs	263,687	264,424
Depletion of ore	97,602	92,587
Other	736,472	421,430
<b>Total</b>	<b>17,207,364</b>	<b>17,628,325</b>

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**23. PERSONNEL EXPENSES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Salaries	4,155,309	3,824,822
Social security payments	1,052,899	945,959
Illness and vacation expenses	487,835	387,236
Accruals for bonuses of Board and Council	104,900	173,500
Insurance of employees	57,712	69,063
Other	170,694	110,918
<b>Total</b>	<b><u>6,029,349</u></b>	<b><u>5,511,498</u></b>

The average number of employees, including employees on term contracts and trainees, was 956 (2005: 974).

**24. DEPRECIATION AND AMORTISATION**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Fixed asset depreciation (see Note 4)	3,209,574	2,829,961
Intangible asset amortization (see Note 3)	271,083	288,581
<b>Total</b>	<b><u>3,480,657</u></b>	<b><u>3,118,542</u></b>

**25. OTHER OPERATING EXPENSES**

	<b>2006</b>	<b>2005</b>
	<b>LVL</b>	<b>LVL</b>
Transportation	2,556,210	2,378,448
Sales commission	1,981,169	1,980,253
Service costs	768,715	847,485
Spare parts	430,876	639,903
Repair expenses	222,367	319,017
Business trips	157,711	179,343
Insurance	155,059	154,927
Leasing	73,561	71,461
Communication	69,978	77,970
Property tax	63,210	58,904
Labour safety and specific clothing	58,381	52,063
Office expenses	56,804	56,977
Selling expenses	44,635	56,727
Allowance for doubtful receivables (Note 9)	4,471	-
Loss on disposal and sale of fixed assets	-	64,261
Other	286,659	193,619
<b>Total</b>	<b><u>6,929,806</u></b>	<b><u>7,131,358</u></b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**26. INTEREST AND SIMILAR INCOME**

	<b>2006</b> <b>LVL</b>	<b>2005</b> <b>LVL</b>
Interest income	1,770	516
Net income on foreign exchange rate fluctuations	-	61,110
Penalties received	-	15
<b>Total</b>	<b>1,770</b>	<b>61,641</b>

**27. INTEREST AND SIMILAR EXPENSES**

	<b>2006</b> <b>LVL</b>	<b>2005</b> <b>LVL</b>
Interest expense	664,020	181,047
Less capitalized interest	(240,571)	(9,523)
Net loss on foreign exchange rate fluctuations	316,533	-
Penalties paid	936	4,209
<b>Total</b>	<b>740,918</b>	<b>175,733</b>

**28. CORPORATE INCOME TAX****28 (a) Components of corporate income tax**

	<b>2006</b> <b>LVL</b>	<b>2005</b> <b>LVL</b>
Deferred tax	655,367	(231,756)
Corporate income tax	-	(53,005)
<b>Total</b>	<b>655,367</b>	<b>(284,761)</b>

**28 (b) Reconciliation of accounting profit to tax charge:**

	<b>2006</b> <b>LVL</b>	<b>2005</b> <b>LVL</b>
Profit before tax	64,314	1,522,189
Expected tax charge, applying current tax rate of 15%	(9,647)	(228,328)
Tax effect of non-deductible items	(68,228)	(56,433)
Tax credit received for new technological equipment	1,248,448	-
Not recognised deferred tax asset (tax losses)	(514,098)	-
Other	(1,108)	-
<b>Corporate income tax charge</b>	<b>655,367</b>	<b>(284,761)</b>



**NOTES TO THE FINANCIAL STATEMENTS  
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**28 (c) Net deferred tax liabilities as of end of the year:**

Calculation of deferred tax:

	2006		2005	
	Temporary difference	Tax effect 15 %	Temporary difference	Tax effect 15 %
Temporary difference on depreciation of fixed assets (liability)	11,234,128	1,685,119	9,186,563	1,377,984
Temporary difference on accruals (asset)	(145,927)	(21,889)	(238,209)	(35,731)
Tax loss carry forward (asset)	(6,508,960)	(976,344)	-	-
<b>Total</b>	<b>4,579,241</b>	<b>686,886</b>	<b>8,948,354</b>	<b>1,342,253</b>

As at 31 December 2006 total tax losses amount to LVL 9,936,278. These tax losses have arisen in 2006 and can be carried forward for 5 years. Tax losses have been recognised to the extent they can be used to offset the reversal of existing taxable temporary differences (LVL 6,508,960).

**29. EARNINGS PER SHARE**

	2006 LVL	2005 LVL
<b>Basic and diluted earnings per share</b>		
Average number of shares outstanding	23,903,205	23,903,205
Current year profit	719,681	1,237,428
<b>Basic and diluted earnings per share</b>	<b>0.0301</b>	<b>0.0518</b>

**30. MANAGEMENT REMUNERATION**

	2006 LVL	2005 LVL
Members of the Council:		
Compensation (Tantiemes)	91,870	127,750
Social security payments	15,569	16,698
Members of the Board:		
Compensation	156,618	176,647
Social security payments	13,016	14,083
Other management:		
Salary	213,948	165,138
Social security payments	26,925	30,071
<b>Total</b>	<b>517,946</b>	<b>530,387</b>

In 2006 and 2005 the Company has not granted or received any loans from the members of Council, Board or management.

**NOTES TO THE FINANCIAL STATEMENTS  
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**31. TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

<b>31.12.2006</b>	<b>Accounts receivable LVL</b>	<b>Accounts payable LVL</b>
P-D Glasseiden Oschatz GmbH	2,203,797	253,714
VITRULAN Textilglas GmbH	180,224	2,609
P-D aitec GmbH	22,455	26,084
<b>Total</b>	<b>2,406,476</b>	<b>282,407</b>

<b>2006</b>	<b>Transactions with entities with significant influence over the Company LVL</b>
Sales of goods	25,061,660
Acquisition of fixed assets	6,133,398
Purchase of goods	2,387,948
Sales commissions	1,981,169
Received services	1,423,164
Provided services	80,416

**32. COMMITMENTS AND CONTINGENCIES***Lease commitments*

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. In 2005 the Company purchased 6.0734 ha of the land, thus, decreasing the total area leased.

The total future rent payments are as follows:

<b>Year</b>	<b>2006 LVL</b>	<b>2005 LVL</b>
2007	12,191	12,191
2008 – 2011	48,765	48,765
Due after 2012	182,865	195,056
<b>Total</b>	<b>243,821</b>	<b>256,012</b>

*Long – term purchase agreements*

The Company has signed three long-term agreements for the purchase of raw materials:

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.

The long-term agreement signed with 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 2007 and is subject to automatic extension annually.

*Construction and fixed asset purchase agreements*

The Company has signed agreements for construction of a new plant on Cempu Street 13, Valmiera and purchases of fixed assets. The total contractual amount is LVL 0.6 million.

**33. FINANCIAL RISK MANAGEMENT**

*Foreign Currency Risk*

Approximately 19% of total sales in 2006 resulted from contracts denominated in USD. 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.

*Credit risk*

The Company has developed a trade receivables management system to mitigate the risks related to unrecoverable receivables amounts. The finance management software (receivables module) generates automatic notifications on delays of repayment terms. Some of the trade receivables are insured by the insurance company "Hermes". The Company has also set credit limits for each customer. Customers from countries with increased risk are usually required to pay in advance. Invoices should be paid from 60 to 120 days after issuance date.

*Interest rate risk*

The Company has long-term loans with variable EURIBOR interest rate from credit institutions. Therefore it is exposed to any changes in interest rates. The risk is hedged using interest rate swap.

*Liquidity risk*

The Company maintains sufficient cash funds at 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 than one year, therefore in management's opinion there are no material difference between fair value and carrying value of the financial assets and liabilities.

**34. SEGMENT REPORTING**

The Company does not have an integrated internal reporting system by units, and accordingly no segment reporting is made. An analysis of the Company's geographical sales is presented in Note 20.

**35. EMISSION RIGHTS**

According to the decision No.270 of the Cabinet of Ministers of Republic of Latvia dated 27 April 2004 "Plan for distribution of emission quotas", the Company has received a free of charge allowance for emission of CO2: 2005 – 31,398 quotas, 2006 – 31,398, 2007 – 38,887 (total 101,683 quotas). Actual emission in 2005 amounted to 29,826 quotas, in 2006 28,415 quotas, thus, there is a surplus in comparison to allowance of 4,555. The management intends to utilise these quotas in 2007.

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