



JSC Valmieras stikla šķiedra

*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*

JSC VALMIERAS STIKLA ŠĶIEDRA

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JSC VALMIERAS STIKLA ŠĶIEDRA

ANCILLARY INFORMATION

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

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 (49.781million EUR) compared to 2005 when the sales were LVL 32.688 million(46.511million EUR). The net sales increase is LVL 2.298 million (3.270million EUR) 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 JSC Valmieras stikla šķiedra 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 (37million EUR) .

In 2006 JSC Valmieras stikla šķiedra 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 thous and (1,024.01 thous EUR), comparatively in 2005 the net profit was LVL 1.237 millions (1.760millions EUR). 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 (1.8 cent) per share.

The share value of JSC Valmieras stikla šķiedra listed in Riga Stock Exchange fluctuated during the year from 1.70 LVL(2.42EUR) to LVL 2.68(3.81 EUR) per share. As at 30 December 2006 the share was traded for LVL 2.36 (3.36 EUR)

As of 31 December 2006, the share capital of A/S Valmieras Stikla Šķiedra was LVL 23,903,205. (34,011,197 EUR)

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 (63.035 million EUR) and a net profit of LVL 1.445 million (2.056million EUR). In 2008 the Company plans sales of LVL 54 million and (76.8million EUR) and a net profit of LVL 3.2 million (4.55 million EUR) .

Total budgeted investments into fixed assets and modernisation for 2007 equal LVL 1.2 million(1.7 million EUR).

MANAGEMENT REPORT

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.

Andris Oskars Brutāns
Chairman of the Board

5 March 2007

Translation from Latvian

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		31.12.2005	
		LVL	EUR	LVL	EUR
			0.702804		0.702804
ASSETS					
Non-current assets					
Intangible assets					
Patents and licenses		70 451	100 243	77 066	109 655
Other intangible assets		-	-	249 280	354 693
Total intangible assets	3	70 451	100 243	326 346	464 349
Fixed assets					
Land and buildings	4	11 537 020	16 415 701	4 990 321	7 100 587
Equipment and machinery	4	28 051 799	39 914 114	13 706 596	19 502 729
Other fixed assets	4	629 646	895 906	472 842	672 794
Construction in progress	4	1 485 598	2 113 816	2 134 933	3 037 736
Advance payments for fixed assets		1 202 196	1 710 571	396 700	564 453
Total fixed assets		42 906 259	61 050 106	21 701 392	30 878 299
Total non-current assets		42 976 710	61 150 349	22 027 738	31 342 647
Current assets					
Inventory					
Raw materials	5	6 447 390	9 173 809	6 924 987	9 853 369
Work in progress		2 258 584	3 213 676	2 360 142	3 358 180
Finished goods	6	2 812 695	4 002 104	3 683 622	5 241 322
Advance payments for inventories		50 505	71 862	117 309	166 916
Total inventory		11 569 174	16 461 452	13 086 060	18 619 786
Accounts receivable					
Trade receivables	7	4 463 165	6 350 512	4 533 998	6 451 298
Other receivables	8	559 619	796 266	250 752	356 788
Deferred expenses	10	398 780	567 413	194 295	276 457
Total accounts receivable		5 421 564	7 714 191	4 979 045	7 084 543
Cash and cash equivalents	11	567 917	808 073	243 753	346 829
Total current assets		17 558 655	24 983 715	18 308 858	26 051 158
TOTAL ASSETS		60 535 365	86 134 064	40 336 596	57 393 805

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

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA

**BALANCE SHEET
AS OF 31 DECEMBER 2006**

	Notes	31.12.2006		31.12.2005	
		LVL	EUR	LVL	EUR
LIABILITIES & SHAREHOLDERS' EQUITY			0.702804		0.702804
Shareholders' equity					
Share capital	12	23 903 205	34 011 197	23 903 205	34 011 197
Reserves		-	-	234 533	333 710
Retained earnings:					
a) retained earnings		3 821	5 437 442	2 660 237	3 785 176
b) current year profit		456			
		719 681	1 024 014	1 237 428	1 760 701
Total shareholders' equity		28 444 342	40 472 652	28 035 403	39 890 785
Liabilities					
Non-current liabilities					
Due to credit institutions	13	25 300 919	35 999 964	2 563 544	3 647 594
Finance lease	14	10 484	14 917	28 465	40 502
Deferred tax	28	686 886	977 351	1 342 253	1 909 854
Total non-current liabilities		25 998 289	36 992 233	3 934 262	5 597 950
Current liabilities					
Due to credit institutions	13	1 631 914	2 322 004	5 401 197	7 685 211
Finance lease	14	17 986	25 592	17 986	25 592
Advance payments from customers		59 492	84 649	15 349	21 840
Trade payables	15	3 427 835	4 877 370	2 194 430	3 122 393
Taxes and social security payments	16	291 539	414 823	293 444	417 533
Other accounts payable	17	339 815	483 513	206 316	293 561
Accrued liabilities	18	147 072	209 265	238 209	338 941
Deferred income		1 400	1 992	-	
Derivatives	19	175 681	249 972	-	
Total current liabilities		6 092 734	8 669 179	8 366 931	11 905 070
Total liabilities		32 091 023	45 661 412	12 301 193	17 503 021
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		60 535 365	86 134 064	40 336 596	57 393 805

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

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA

**STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006		2005	
		LVL	EUR 0.702804	LVL	EUR 0.702804
Revenues	20	34 986 103	49 780 740	32 688 396	46 511 397
Changes in inventories		(972 485)	(1 383 721)	2 092 217	2 976 957
Work performed by the entity and capitalised		287768	409 457	108 008	153 682
Other operating income	21	149252	212 366	137 383	195 478
Raw materials and consumables	22	(17 207364)	(24 483 873)	(17 628 325)	(25 082 847)
Personnel expenses	23	(6 029 349)	(8 578 991)	(5 511 498)	(7 842 155)
Depreciation and amortization	24	(3 480 657)	(4 952 529)	(3 118 542)	(4 437 286)
Other operating expenses	25	(6 929 806)	(9 860 226)	(7 131 358)	(10 147 008)
Profit from operations		803462	1 143 223	1 636 281	2 328 218
Interest and similar income	26	1 770	2 518	61 641	87 707
Interest and similar expenses	27	(740 918)	(1 054 231)	(175 733)	(250 046)
Profit before taxes		64314	91 511	1522189	2 165 880
Corporate income tax	28	655367	932 503	(284 761)	(405 178)
Net profit		719681	1 024 014	1237428	1 760 701
Basic and diluted earnings per share	29	0,0301	0,0428	0,0518	0.0737

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

Jürgen Preiss-Daimler
Chairman of the Council

A/S VALMIERAS STIKLA SKIEDRA

**STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Share capital		Reserves		Retained earnings		Total	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
		0.702804		0.702804		0.702804		0.702804
As of 31 December 2004	23 903 205	34 011 197	234 533	333 710	3 544 655	5 043 590	27 682 393	39 388 497
Dividends paid	-	-	-	-	(884 418)	(1 258 413)	(884 418)	(1 258 413)
Current year profit	-	-	-	-	1 237 428	1 760 701	1 237 428	1 760 701
As of 31 December 2005	23 903 205	34 011 197	234 533	333 710	3 897 665	5 545 878	28 035 403	39 890 785
Transfer to retained earnings	-	-	(234 533)	(333 710)	234 533	333 710	-	-
Dividends paid	-	-	-	-	(310 742)	(442 146)	(310 742)	(442 146)
Current year profit	-	-	-	-	719 681	1 024 014	719 681	1 024 014
As of 31 December 2006	23 903 205	34 011 197	-	-	4 541 137	6 461 456	28 444 342	40 472 652

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

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		2005	
		LVL	EUR 0.702804	LVL	EUR 0.702804
OPERATING ACTIVITIES					
Profit before taxation		64 314	91 511	1 522 189	2 165 880
Adjustments:					
Depreciation and amortization	24	3 480 657	4 952 529	3 118 542	4 437 286
Depletion of precious metals	22	97 602	138 875	92 587	131 739
Profit or loss from disposal of fixed assets		4 608	6 557	64 261	91 435
Interest income	26	(1 770)	(2 518)	(516)	(734)
Interest expense		423 449	602 514	181 047	257 607
Changes in fair value of derivatives		175 681	249 972	-	-
Changes in operating assets and liabilities:					
Inventory		1 224 857	1 742 814	(2 092 241)	(2 976 991)
Accounts receivable and other assets		(442 519)	(629 648)	(1 400 169)	(1 992 261)
Accounts payable and other liabilities		1 657 974	2 359 084	270 938	385 510
Accruals for vacations and bonuses for board and council members		(91 137)	(129 676)	30 487	43 379
Corporate income tax paid		(53 005)	(75 419)	-	-
Cash provided by operating activities		6 540 711	9 306 593	1 787 125	2 542 850
INVESTING ACTIVITIES					
Purchase of fixed assets and intangible assets, advance payments		(24 258 594)	(34 516 870)	(5 026 686)	(7 152 330)
Proceeds from sale of fixed assets		64 928	92 384	11 263	16 026
Received interest income		1 770	2 518	516	734
Net cash used in investing activities		(24 191 896)	(25 115 374)	(5 014 907)	(4 592 720)
FINANCING ACTIVITIES					
Received loans from credit institution	13	22 737 375	32 352 370	10 136 558	14 423 023
Paid loans to credit institutions	13	(1 686 732)	(2 400 003)	(7 995 282)	(11 376 261)
Change in credit line, net	13	(2 082 551)	(2 963 203)	2 040 420	2 903 256
Finance lease payments	14	(17 981)	(25 585)	(17 982)	(25 586)
Dividends paid		(310 742)	(442 146)	(884 418)	(1 258 413)
Interest expenses paid		(664 020)	(944 815)	(181 047)	(257 607)
Net cash provided by financing activities		17 975 349	25 576 617	3 098 249	4 408 411
Net increase (decrease) in cash and cash equivalents		324 164	461 244	(129 533)	(184 309)
Cash and cash equivalents at the beginning of the year		243 753	346 829	373 286	531 138
Cash and cash equivalents at the end of the year	11	567917	808 073	243753	346 829

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

SIA “COLUMBUS IT Partner”

**FINANSU PĀRSKATU PIEZĪMES
PAR GADIEM, KAS NOSLĒDZĀS 2003. UN 2000. GADA 31. DECEMBRĪ**

The financial statements were signed on 5 March 2007 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 2006**

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

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

	2006	2005
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

Sales of goods are recognised when goods are shipped.

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

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

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

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

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 CO₂ 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.

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3. INTANGIBLE ASSETS

	Patents and licenses		Other intangible assets		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
historical cost		0.702804		0.702804		0.702804
As of 31 December 2004	1 243 338	1 769 111	1 359 709	1 934 692	2 603 047	3 703 802
Additions	50 413	71 731	-	-	50 413	71 731
As of 31 December 2005	1 293 751	1 840 842	1 359 709	1 934 692	2 653 460	3 775 533
Additions	15 188	21 611	-	-	15 188	21 611
As of 31 December 2006	1 308 939	1 862 452	1 359 709	1 934 692	2 668 648	3 797 144
accumulated AMORTISATION						
As of 31 December 2004	1 200 046	1 707 512	838 487	1 193 060	2 038 533	2 900 571
Charge for the year	16 639	23 675	271 942	386 939	288 581	410 614
As of 31 December 2005	1 216 685	1 731 187	1 110 429	1 579 998	2 327 114	3 311 185
Charge for the year	21 803	31 023	249 280	354 693	271 083	385 716
As of 31 December 2006	1 238 488	1 762 210	1 359 709	1 934 692	2 598 197	3 696 901
net BOOK VALUE						
As of 31 December 2005	77 066	109 655	249 280	354 693	326 346	464 349
As of 31 December 2006	70 451	100 243	-	-	70 451	100 243

**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
HISTORICAL COST						
As of 31 December 2004	-	6 393 573	17 137 882	1 127 329	2 969 889	27 628 673
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)	-
As of 31 December 2005	242 936	6 922 105	22 000 156	1 482 439	2 134 933	32 782 569
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)	-
As of 31 December 2006	242 936	13 964 349	38 420 239	1 868 108	1 485 598	55 981 230
accumulated depreciation						
As of 31 December 2004	-	1 760 122	6 189 979	783 660	-	8 733 761
Charge for the year	-	442 211	2 140 251	247 499	-	2 829 961
Disposals	-	(27 613)	(36 670)	(21 562)	-	(85 845)
As of 31 December 2005	-	2 174 720	8 293 560	1 009 597	-	11 477 877
Charge for the year	-	496 350	2 455 250	257 974	-	3 209 574
Disposals	-	(805)	(380 370)	(29 109)	-	(410 284)
As of 31 December 2006	-	2 670 265	10 368 440	1 238 462	-	14 277 167
net book value						
As of 31 December 2005	242 936	4 747 385	13 706 596	472 842	2 134 933	21 304 692
As of 31 December 2006	242 936	11 294 084	28 051 799	629 646	1 485 598	41 704 063

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	Land	Buildings	Equipment and machinery	Other fixed assets	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
	0.702804	0.702804	0.702804	0.702804	0.702804	0.702804
HISTORICAL COST						
As of 31 December 2004	-	9 097 235	24 385 009	1 604 045	4 225 771	39 312 060
Additions	-	-	-	-	7 562 941	7 562 941
Disposals	-	(131 461)	(67 293)	(30 854)	-	(229 608)
Transfers	345667	883494	6985686	536129	(8 750 976)	-
As of 31 December 2005	345667	9849268	31 303 402	2 109 320	3 037 736	46 645 393
Additions	-	-	-	-	33 691 443	33 691 443
Disposals	-	(1 595)	(639 302)	(41 825)	-	(682 722)
Transfers	-	10021806	24002975	590583	(34 615 364)	-
As of 31 December 2006	345667	19869479	54 667 075	2 658 078	2 113 815	79 654 114
ACCUMULATED DEPRECIATION						
As of 31 December 2004	-	2 504 428	8 807 546	1 115 048	-	12 427 022
Charge for the year	-	629 210	3 045 303	352 159	-	4 026 672
Disposals	-	(39 290)	(52 177)	(30 680)	-	(122 147)
As of 31 December 2005	-	3 094 348	11 800 672	1 436 527	-	16 331 547
Charge for the year	-	706 242	3 493 506	367 064	-	4 566 812
Disposals	-	(1 145)	(541 218)	(41 418)	-	(583 781)
As of 31 December 2006	-	3 799 445	14 752 960	1 762 173	-	20 314 578
NET BOOK VALUE						
As of 31 December 2005	345 667	6 754 920	19 502 729	672 794	3 037 736	30 313 846
As of 31 December 2006	345 667	16 070 034	39 914 115	895 905	2 113 815	59 339 536

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.

**NOTES TO THE FINANCIAL STATEMENTS
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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 LVL14,777,872 (2005 – LVL 12,958,899).

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

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
P-D Glasseiden Oschatz GmbH	2 203 797	3 135 721	2 607 833	3 710 612
VITRULAN Textilglas GmbH	180 224	256 436	193 993	276 027
P-D aitec GmbH	22 455	31 951	4 369	6 217
Other trade receivables	2 080 805	2 960 719	1 749 386	2 489 152
Allowances for doubtful receivables	(24 116)	(34 314)	(21 583)	(30 710)
Total	4 463 165	6 350 512	4 533 998	6 451 298

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

8. OTHER RECEIVABLES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
VAT overpayment (see Note 16)	403 409	573 999	130 744	186 032
VAT on unpaid invoices	74 045	105 357	101 530	144 464
Natural resource tax (see Note 16)	16 602	23 623	-	-
Real estate tax (see Note 16)	2 598	3 697	-	-
Other receivables	87 945	125 134	45 266	64 408
Allowance for doubtful receivables	(24 980)	(35 543)	(26 788)	(38 116)
Total	559 619	796 266	250 752	356 788

**NOTES TO THE FINANCIAL STATEMENTS
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9. CHANGES IN ALLOWANCE FOR DOUBTFUL RECEIVABLES

	LVL	EUR
		0.702804
Allowance as of 31 December 2004	62 933	89 546
Decrease due to collection (see Note 21)	(14 555)	(20 710)
Foreign currency exchange rate fluctuations	(7)	(10)
Allowance as of 31 December 2005	48 371	68 826
Decrease due to collection (see Note 21)	(1 840)	(2 618)
Written-off debts	(1 905)	(2 711)
Charged to statement of profit and loss	4 470	6360
Allowance as of 31 December 2006	49 096	69 857

10. DEFERRED EXPENSES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Platinum plate replacement expenses	214 975	305 882	48 642	69 211
Insurance expenses	152 535	217 038	92 886	132 165
Other deferred expenses	31 270	44 493	52 767	75 081
Total	398 780	567 413	194 295	276 457

11. CASH AND CASH EQUIVALENTS

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Cash in bank	562 003	799 658	238 946	339 990
Cash on hand	5 914	8 415	4 807	6 840
Total	567 917	808 073	243 753	346 829

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:

	2006	2005
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
Vitrolan Textilglas GmbH	30.8%	30.8%

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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%
	<u>100.0%</u>	<u>100.0%</u>

**NOTES TO THE FINANCIAL STATEMENTS
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13. DUE TO CREDIT INSTITUTIONS

	2006		2005	
	LVL	EUR	LVL	EUR
Non-current part:		0.702804		0.702804
Loan A/S "Hansabanka"	25 300 919	35 999 964	2 563 544	3 647 594
Total non-current part	25 300 919	35 999 964	2 563 544	3 647 594
Current part:				
Credit line A/S "Hansabanka"	1 631 914	2 322 004	3 714 465	5 285 208
Loan A/S "Hansabanka"	-	-	1 686 732	2 400 003
Total current part	1 631 914	2 322 004	5 401 197	7 685 211
Total	26 932 833	38 321 969	7 964 741	11 332 805

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:

Date	Agreement No.	Principal amount, EUR	Interest rate	Repayment term
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:

	2006		2006		2005		2005	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
		0.7028		0.7028		0.7028		0.702804
	Minimum lease payments		Present value of minimum		Minimum lease payments		Present value of minimum lease	
Amounts payable under finance lease:								
Current	18 824	26 784	17 986	25 592	19 580	27 860	17 986	25 592
Non current	10 634	15 131	10 484	14 917	29 453	41 908	28 465	40 502
Total amounts payable under finance lease	29 458	41 915	28 470	40 509	49 033	69 768	46 451	66 094
Future financing charges	(988)	(1 406)	n/a	n/a	(2 582)	(3 674)	n/a	n/a
Present value of lease obligations	28 470	40 509	28 470	40 509	46 451	66 094	46 451	66 094

**NOTES TO THE FINANCIAL STATEMENTS
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15. TRADE PAYABLES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
For services received	1 858 782	2 644 809	1 268 381	1 804 744
For goods received	1 422 870	2 024 562	926 049	1 317 649
For fixed assets	146 183	208 000	-	-
Total	3 427 835	4 877 370	2 194 430	3 122 393

16. TAXES AND SOCIAL SECURITY PAYMENTS

	2005					2006		
	Over- payment	Liability	Calculated	Transfers	Returned from the state	Paid	Over- payment	Liability
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	-
Total	130 744	293 444	(378 351)	22 260	1 237 363	1 130 521	422 609	291 539

	2005					2006		
	Over- payment EUR	Liability EUR	Calculated EUR	Transfers EUR	Returned from the state EUR	Paid EUR	Over- payment EUR	Liability EUR
	0.702804	0.702804	0.702804	0.702804	0.702804	0.702804	0.702804	0.702804
Natural resource tax	-	6410	39150	18775	-	21796	-	4990
Real estate tax	-	3441	88315	-	-	95450	3697	-
Social security payments	-	181780	2133243	2088776	-	404	-	225844
Personal income tax	-	181780	2133243	2088776	-	404	-	225844

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	-	149998	1443188	-	-	1409537	-	183649
Land tax	-	-	1625	-	-	1625	-	-
Enterprise risk duty								
	-	485	4210	-	-	4355	-	340
VAT	186032	-	(4248076)	(2099500)	1760609	-	573999	-
Corporate income tax								
	-	75419	-	23622	-	75419	23622	-
Total	186032	417533	-538345	31673	1760609	1608586	601318	414823

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

17. OTHER ACCOUNTS PAYABLE

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Salary	335 554	477 450	195 212	277 762
Other	4 261	6 063	11 104	15 800
Total	339 815	483 513	206 316	293 561

18. ACCRUED LIABILITIES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Accrual for remuneration of the members of the Board and Council				
	104 900	149 259	178 008	253 283
Accrual for vacations	41 027	58 376	60 201	85 658
Accruals for natural resource tax	1 145	1 629	-	-
Total	147 072	209 265	238 209	338 941

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

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Export sales:				
European Union	24 508 567	34 872 549	22 761 001	32 385 987
North America	5 332 179	7 587 007	5 575 770	7 933 606
CIS	2 348 340	3 341 387	2 533 662	3 605 076

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Local sales	1 187 205	1 689 241	639 216	909 522
Other countries	1 609 812	2 290 556	1 178 747	1 677 206
Total	34 986 103	49 780 740	32 688 396	46 511 397

21. OTHER OPERATING INCOME

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Sale of raw materials	67 943	96 674	67 781	96 444
Income from sale of fixed assets	15 643	22 258	-	-
Decrease in allowance for doubtful receivables (see Note 9)	1 840	2 618	14 555	20 710
Insurance compensation	-	-	279	397
Other	63 826	90 816	54 768	77 928
Total	149 252	212 366	137 383	195 478

22. RAW MATERIALS AND CONSUMABLES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Raw materials	13 744 026	19 555 987	14 928 422	21 241 231
Electricity	1 214 257	1 727 732	1 156 479	1 645 521
Natural gas	1 151 320	1 638 181	764 983	1 088 473
Ore processing costs	263 687	375 193	264 424	376 241
Depletion of ore	97 602	138 875	92 587	131 739
Other	736 472	1 047 905	421 430	599 641
Total	17 207 364	24 483 873	17 628 325	25 082 847

23. PERSONNEL EXPENSES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Salaries	4 155 309	5 912 472	3 824 822	5 442 231
Social security payments	1 052 899	1 498 140	945 959	1 345 978
Illness and vacation expenses	487 835	694 127	387 236	550 987
Accruals for bonuses of Board and Council	104 900	149 259	173 500	246 868
Insurance of employees	57 712	82 117	69 063	98 268
Other	170 694	242 876	110 918	157 822
Total	6 029 349	8 578 991	5 511 498	7 842 155

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

**NOTES TO THE FINANCIAL STATEMENTS
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24. DEPRECIATION AND AMORTISATION

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Fixed asset depreciation (see Note 4)	3 209 574	4 566 812	2 829 961	4 026 672
Intangible asset amortization (see Note 3)	271 083	385 716	288 581	410 614
Total	3 480 657	4 952 529	3 118 542	4 437 286

25. OTHER OPERATING EXPENSES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Transportation	2 556 210	3 637 159	2 378 448	3 384 227
Sales commission	1 981 169	2 818 950	1 980 253	2 817 646
Service costs	768 715	1 093 783	847 485	1 205 863
Spare parts	430 876	613 081	639 903	910 500
Repair expenses	222 367	316 400	319 017	453 920
Business trips	157 711	224 403	179 343	255 182
Insurance	155 059	220 629	154 927	220 441
Leasing	73 561	104 668	71 461	101 680
Communication	69 978	99 570	77 970	110 941
Property tax	63 210	89 940	58 904	83 813
Labour safety and specific clothing	58 381	83 069	52 063	74 079
Office expenses	56 804	80 825	56 977	81 071
Selling expenses	44 635	63 510	56 727	80 715
Allowance for doubtful receivables (Note 9)	4 471	6 362	-	-
Loss on disposal and sale of fixed assets	-	-	64 261	91 435
Other	286 659	407 879	193 619	275 495
Total	6 929 806	9 860 226	7 131 358	10 147 008

26. INTEREST AND SIMILAR INCOME

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Interest income	1 770	2 518	516	734
Net income on foreign exchange rate fluctuations	-	-	61 110	86 952
Penalties received	-	-	15	21
Total	1 770	2 518	61 641	87 707

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27. INTEREST AND SIMILAR EXPENSES

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Interest expense	664 020	944 815	181 047	257 607
Less capitalized interest	(240 571)	(342 302)	(9 523)	(13 550)
Net loss on foreign exchange rate fluctuations	316 533	450 386	-	-
Penalties paid	936	1 332	4 209	5 989
Total	740 918	1 054 231	175 733	250 046

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

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Deferred tax	655 367	932 503	(231 756)	(329 759)
Corporate income tax	-	-	(53 005)	(75 419)
Total	655 367	932 503	(284 761)	(405 178)

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

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Profit before tax	64 314	91 511	1 522 189	2 165 880
Expected tax charge, applying current tax rate of 15%	(9 647)	(13 726)	(228 328)	(324 881)
Tax effect of non-deductible items	(68 228)	(97 080)	(56 433)	(80 297)
Tax credit received for new technological equipment	1 248 448	1 776 381	-	-
Not recognised deferred tax asset (tax losses)	(514 098)	(731 496)	-	-
Other	(1 108)	(1 577)	-	-
Corporate income tax charge	655 367	932 503	(284 761)	(405 178)

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)

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Tax loss carry forward (asset)	(6 508 960)	(976 344)	-	-
Total	4 579 241	686,886	8 948 354	1 342 253

	2006		2005	
	Temporary difference	Tax effect 15%	Temporary difference	Tax effect 15%
	EUR	EUR	EUR	EUR
	0.702804	0.702804	0.702804	0.702804
Temporary difference on depreciation of fixed assets (liability)	15 984 724	2 397 708	13 071 302	1 960 695
Temporary difference on accruals (asset)	(207 635)	(31 145)	(334 941)	(50 841)
Tax loss carry forward (asset)	(9 261 416)	(1 389 212)	-	-
Total	6 515 673	977 351	12 736 361	1 909 854

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		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Basic and diluted earnings per share				
Average number of shares outstanding	23 903 205	34 011 197	23 903 205	34 011 197
Current year profit	719 681	1 024 014	1 237 428	1 760 701
Basic and diluted earnings per share	0.0301	0.0437	0.0518	0.0737

30. MANAGEMENT REMUNERATION

	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Members of the Council:				
Compensation (Tantiemes)	91 870	130 719	127 750	181 772
Social security payments	15 569	22 153	16 698	23 759
Members of the Board:				
Compensation	156 618	222 847	176 647	251 346
Social security payments	13 016	18 520	14 083	20 038
Other management:				
Salary	213 948	304 421	165 138	234 970

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

Social security payments	26 925	38 311	30 071	42 787
Total	517 946	736 971	530 387	754 673

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

31. TRANSACTIONS AND BALANCES WITH RELATED PARTIES
31.12.2006

	Accounts receivable		Accounts payable	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
P-D Glasseiden Oschatz GmbH	2 203 797	3 135 721	253 714	361 002
VITRULAN Textilglas GmbH	180 224	256 436	2 609	3 712
P-D aitec GmbH	22 455	31 951	26 084	37 114
Total	2 406 476	3 424 107	282 407	401 829

**2006 Transactions with
entities with significant
influence over the
Company**

	LVL	EUR
		0.702804
Sales of goods	25 061 660	35 659 530
Acquisition of fixed assets	6 133 398	8 727 039
Purchase of goods	2 387 948	3 397 744
Sales commissions	1 981 169	2 818 950
Received services	1 423 164	2 024 980
Provided services	80 416	114 422

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:

Year	2006		2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
2007	12 191	17 346	12 191	17 346
2008 – 2011	48 765	69 386	48 765	69 386
Due after 2012	182 865	260 193	195 056	277 540
Total	243 821	346 926	256 012	364 272

Long – term purchase agreements

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

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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