



**JSC "VALMIERAS STIKLA ŠĶIEDRA"**

Reg.No. 40003031676

Financial report

as at 31.march 2006  
as at 31 December 2005

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, vicepresident Wilfried Queißer Karl Heinz Will Imants Saulītis Bernd Preißler Friedhelm Schwender
THE COUNCIL	Chairman of the Council: Jürgen Preiss-Daimler  Members of the Council: Inārs Poļaks Andris Bērziņš Hans Peter Cordts Guntis Strazds

Valmiera, Cempu St. 13

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## MANAGEMENT REPORT

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The Company's primary business is the manufacture and sale of fibreglass products. The Company has been operating in international fibreglass market for 12 years; in 2005 the production was sold in 29 countries. 70% of total production is sold to European Union companies.

Since 2000 the Company operates in accordance with DIN EN 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 first 3 months of 2006. The Company's sales amounted to LVL 8 382 million compared to 2005 when the sales were LVL 8 100million. The net sales increase is LVL 0 282million or 3.5%. The sales increase is related to the increase in turnover and number of customers in USA and Europe. The sales increase was caused by the successful operation of fibreglass manufacturing plants, the high qualification of employees, new product development, improvement of production and sales process.

During 2006, the Company has invested LVL 1,8 million in fixed assets to increase the manufacturing capacity.

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

Fibreglass nets and ravings	37%
Fibreglass fabrics	55%
Other	8%

The net profit for the first 3 months of 2006 was LVL 0 369 million, which is a decrease of LVL 0 338 million or 47.8% but by LVL 0 028 million or 8.1% more than planned compared to 2005. The decrease in net profit is related to an increase of actual expenditure for certain types of costs (transportation, raw material, electricity, gas, depreciation and amortisation, services received from other companies in Latvia etc.) in comparison to budgeted and fact in the first 3 months of 2005.

The share value of A/S Valmieras Stikla Šķiedra listed in Riga Stock Exchange decreased by LVL 0.53 or 20.1%, i.e., from LVL 2.64 as of 30 December 2005 to LVL 2.11 as of 31.03.2006.

As of March 31, 2006, the share capital of JSC 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;

The Company plans to invest in several large projects that will affect all production units and technological equipment.

The Company's budgeted sales for 2006 are LVL 34 469 million, net profit- LVL 1 263 million. In 2007 the Company plans sales of LVL 45.3 million, and have profit of LVL 3.2 million.

Total budgeted investments for 2006 equal LVL 25 727 million.

JSC VALMIERAS STIKLA ŠĶIEDRA

BALANCE SHEET

AS AT 31 march 2006 AND 31 December 2005

	2006 CURRENCY		2005	CURRENCY
	EXCHANGE RATE		LVL	EXCHANGE RATE
ASSETS	on 31/12/2006 EUR			on 31/12/2005 EUR
<i>Non-current assets</i>		<b>0.702804</b>		<b>0.702804</b>
<i>Intangible assets</i>				
Patents and licenses	82 747	117 738	77 066	109 655
Other intangible assets	181 294	257 958	249 280	354 693
<b>Total intangible assets</b>	<b>264 041</b>	<b>375 696</b>	<b>326346</b>	<b>464 348</b>
<i>Fixed assets</i>				
Buildings	4 951 731	7 045 678	4 990 321	7 100 587
Equipment and machinery	13 691 751	19 481 607	13 706 596	19 502 729
Other fixed assets	433 329	616 572	472 842	672 794
Construction in progress	3 259 964	4 638 511	2 134 933	3 037 736
Advance payments for fixed assets	1 158 036	1 647 737	396 700	564 453
<b>Total fixed assets</b>	<b>23 494 811</b>	<b>33 430 105</b>	<b>21 701 392</b>	<b>30 878 299</b>
<b>Total non-current assets</b>	<b>23 758 852</b>	<b>33 805 801</b>	<b>22 027 738</b>	<b>31 342 647</b>
<i>Current assets</i>				
<i>Inventory</i>				
Raw materials	7 159 495	10 187 044	6 924 987	9 853 369
Work in process	1 927 492	2 742 574	2 360 142	3 358 180
Finished goods	4 241 602	6 035 256	3 683 622	5 241 322
Advance payments for goods	62 190	88 488	117 309	166 916
<b>Total inventory</b>	<b>13 390 779</b>	<b>19 053 362</b>	<b>13 086 060</b>	<b>18 619 786</b>
<i>Accounts receivable</i>				
Due from related parties	6 336 691	9 016 299	4 533 998	6 451 298
Other receivables	442 327	629 375	250 752	356 788
Deferred expenses	158 988	226 220	194 295	276 457
<b>Total accounts receivable</b>	<b>6 938 006</b>	<b>9 871 893</b>	<b>4 979 045</b>	<b>7 084 543</b>
Cash	199 568	283 960	243 753	346 829
<b>Total current assets</b>	<b>20 528 353</b>	<b>29 209 215</b>	<b>18 308 858</b>	<b>26 051 158</b>
<b>TOTAL ASSETS</b>	<b>44 287 205</b>	<b>63 015 016</b>	<b>40 336 596</b>	<b>57 393 805</b>

JSC VALMIERAS STIKLA ŠĶIEDRA

BALANCE SHEET

AS AT 31 March 2006 AND 31 December 2005

	2006	CURRENCY	2005	CURRENCY
	LVL	EXCHANGE RATE	LVL	EXCHANGE RATE
		on 31/03/2006 EUR		on 31/12/2005 EUR
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>		<b>0.702804</b>		<b>0.702804</b>
<b>Shareholders' equity</b>				
Share capital	23 903 205	34 011 197	23 903 205	34 011 197
Reserves			234 533	333 710
Retained earnings:				
a) retained earnings	4 132 198	5 879 588	2 660 237	3 785 176
b) current year profit	368 944	524 960	1 237 428	1 760 701
<b>Total shareholders' equity</b>	<b>28 404 347</b>	<b>40 415 745</b>	<b>28 035 403</b>	<b>39 890 785</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Due to credit institutions	5 314 121	7 561 313	2 563 544	3 647 594
Finance lease	26 967	38 371	28 465	40 502
Deferred tax	1 492 252	2 123 283	1 342 253	1 909 854
<b>Total non-current liabilities</b>	<b>6 833 340</b>	<b>9 722 967</b>	<b>3 934 262</b>	<b>5 597 950</b>
<b>Current liabilities</b>				
Due to credit institutions	5 469 132	7 781 874	5401197	7 685 211
Finance lease	14 990	21 329	17986	25 592
Advance payments from customers	20 576	29 277	15349	21 839
Trade payables	2 669 648	3 798 567	2194430	3 122 393
Taxes and social security payments	239 727	341 101	293444	417 533
Other accounts payable	189 865	270 154	206316	293 561
Accrued liabilities	445 580	634 003	238209	338 941
<b>Total current liabilities</b>	<b>9 049 518</b>	<b>12 876 304</b>	<b>8366931</b>	<b>11 905 070</b>
<b>Total liabilities</b>	<b>15 882 858</b>	<b>22 599 271</b>	<b>12 301 193</b>	<b>17 503 020</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS'</b>	<b>44 287 205</b>	<b>63 015 016</b>	<b>40 336 596</b>	<b>57 393 805</b>

**JSC VALMIERAS STIKLA ŠKIEDRA**

**STATEMENT OF PROFIT AND LOSS**

**FOR THE YEARS ENDED 31 March 2006 AND 31 March 2005**

	31.03.2006		31.03.2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Revenues	8 381 828	11 926 267	8 100 113	11 525 422
Changes in inventories				
Work performed by the entity and capitalised	125 330	178 329	(230 438)	(327 884)
Other operating income	87 249	124 144	23 662	33 668
Raw materials and consumables	(4 128 114)	(5 873 777)	(3 715 262)	(5 286 342)
Personnel expenses	(1 374 186)	(1 955 291)	(1 194 640)	(1 699 820)
Depreciation and amortization	(791 883)	(1 126 748)	(704 206)	(1 001 995)
Other operating expenses	(1 676 332)	(2 385 206)	(1 475 205)	(2 099 028)
<b>Profit from operations</b>	<b>623 892</b>	<b>887 718</b>	<b>804 024</b>	<b>1 144 023</b>
Interest - and similar income	90	128	9 972	14 189
Interest - and similar expenses	(105 038)	(149 456)	(32 241)	(45 875)
<b>Profit before taxes</b>	<b>518 944</b>	<b>738 391</b>	<b>781 755</b>	<b>1 112 337</b>
Corporate income tax	(150 000)	(213 431)	(75 000)	(106 715)
<b>Net profit</b>	<b>368 944</b>	<b>524 960</b>	<b>706 755</b>	<b>1 005 622</b>
<b>Basic earnings per share</b>	<b>0.0154</b>	<b>0.0219</b>	<b>0.0296</b>	<b>0.0421</b>

**A/S VALMIERAS STIKLA SKIEDRA**

**STATEMENTS OF CASH FLOWS**

	2006 Year 3 months LVL	2005 Year 3 months EUR	2006 Year 3 months LVL	2005 Year 3 months EUR
<b>I OPERATING ACTIVITIES</b>		<b>0.702804</b>		<b>0.702804</b>
1. Profit before taxes	584 716	831976	781 755	1 112 337
Adjustments:				
2. Depreciation and amortization	791 883	1126748	704 206	1 001 995
3. Depletion of precious metals	28 646	40760	23 843	33 926
4. Provisions for vacations and bonuses for board and council members	62 600	89072	117 600	167 330
5. Loss from disposal of fixed assets	(12 681)	(18 043)	(0 211)	(0 300)
6. Calculated interest income	(0 090)	(0 128)	(0 098)	(0 139)
7. Calculated interest expenses	44 050	62678	29 901	42 545
<b>Changes in operating assets and liabilities:</b>				
1. Inventory	(304 719)	(433 576)	203 315	289 291
2. Accounts receivable	(1 958 961)	(2 787 350)	(2 260 102)	(3 215 835)
3. Accounts payable	410 276	583770	1 159 071	1 649 209
<b>Cash provided by operating activities</b>	<b>(354 280)</b>	<b>(504 095)</b>	<b>759 280</b>	<b>1 080 358</b>
<b>II INVESTING ACTIVITIES</b>				
1. Repaid loan	(2 519 260)	(3 584 584)	(3 436 507)	(4 889 709)
2. Received credit line	59 298	84 373	4675	6652
3. Paid credit line	0 090	0 128	98	139
<b>Net cash provided by / (used) financing activities</b>	<b>(2 459 872)</b>	<b>(3 500 083)</b>	<b>(3 431 734)</b>	<b>(4 882 918)</b>
<b>III FINANCING ACTIVITIES</b>				
1. Received loans from credit institution	2 750 577	3 913 718		
2. Repaid loan	(562 244)	(800 001)	(263 552)	(375 001)
3. Received kredit	12 034 150	17 123 053	9 172 963	13 051 950
4. Paid credit line	(11 403 971)	(16 226 389)	(6 264 529)	(8 913 622)
5. Paid finance lease	(4 495)	(6 396)		
6. Interest expenses paid	(44 050)	(62 678)	(36 258)	(51 590)
<b>Net cash provided by / (used in) financing activities</b>	<b>2 769 967</b>	<b>3 941 308</b>	<b>2 608 624</b>	<b>3 711 737</b>
<b>Net decrease in cash</b>	<b>(44 185)</b>	<b>(62 870)</b>	<b>(63 830)</b>	<b>(90 822)</b>
Cash at the beginning of the year	243 753	346 829	373 286	531 138
<b>Cash at the end of the period</b>	<b>199 568</b>	<b>283 960</b>	<b>309 456</b>	<b>440 316</b>



A/S "Valmieras stikla šķiedra "

Statements of shareholders' equity

In 3 months of 2006

	rate of exchange				0.702804			
	Share capital LVL	Statutory reserves LVL	Retained earnings LVL	Total LVL	Share capital EUR	Statutory reservesEUR	Retained earnings EUR	Total EUR
As of 31.december 2004	23 903 205	234 533	3 544 655	27 682 393	34 011 197	333 710	5 043 590	39 388 497
Current 3 Months 2005profit			706755	706755			1005622	1005622
As of 31 march 2005	23 903 205	234 533	4 251 410	28 389 148	34 011 197	333 710	6 049 212	40 394 119
Dividends paid			(884 418)	(884 418)			(1 258 413)	(1 258 413)
<b>Current IV-XII 2005 profit</b>			530 673	530 673			755 080	755 080
AS of 31 december 2005	23 903 205	234 533	3 897 665	28 035 403	34 011 197	333 710	5 545 878	39 890 785
Current 3 Months 2006 profit			368 944	368 944			524 960	524 960
<b>As of 31 march 2005</b>	<b>23 903 205</b>	<b>234 533</b>	<b>4 266 609</b>	<b>28 404 347</b>	<b>34 011 197</b>	<b>333 710</b>	<b>6 070 838</b>	<b>40 415 745</b>

Andris Oskars Brutāns  
Chairman of the Board

## ANNEX

### 1. SHARE CAPITAL

The company's registered share capital as at 31 March 2006 and 2005 was LVL 23.903.205. The company's paid share capital registered with the Enterprise Register as at 31 December 2005 and 2004 was 23.903.205, consisting of 23.897.455 ordinary shares with voting rights and 5.750 ordinary shares without voting rights. The nominal value of each share is LVL 1.

As at 31 March 2006 and 2004 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>
	<b>3 Months</b>	<b>3 Months</b>
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
Vitrulan Textilglas GmbH	30.8%	30.8%
Skandinaviska Enskilda Banken Ab	7.6%	8%
VAS VSAA	2.4%	2.4%
Nordea Bank Finland Plc	2.6%	1.5%
P.D.P.Fiberglass Consulting Ltd.	4.6%	4.6%
Other	6.7%	7.4%
	<b>100.00%</b>	<b>100.0%</b>

### 2. INFORMATION CONCERNING THE PROFIT OR LOSS ACCOUNT

#### 1. MATERIAL EXPENSES

	<b>2006</b>	<b>EUR</b>	<b>2005</b>	<b>EUR</b>
	<b>3 Months</b>		<b>3 Months</b>	
	LVL	<b>0.702804</b>	LVL	<b>0.702804</b>
Raw materials	3 277 870	4 663 989	3 004 545	4 275 082
Electricity	304 927	433 872	272 182	387 280
Ore processing costs	76 405	108 715	64 712	92 077
Natural gas	302 139	429 905	217 387	309 314
Depletion of ore	28 645	40 758	23 843	33 926
Other	138 128	196 538	132 593	188 663
<b>Total</b>	<b>4 128 114</b>	<b>5 873 777</b>	<b>3 715 262</b>	<b>5 286 342</b>

#### 2. PERSONNEL EXPENSES

Salaries	992 150	1 411 702	801 473	1 140 393
Social security payments	232 259	330 475	203 308	289 281
Illness and vacation expenses	74 058	105 375	51 050	72 638
Provisions for bonuses of Board and Council	62 600	89 072	117 600	167 330
Other	13 119	18 667	21 209	30 178
<b>Total</b>	<b>1 374 186</b>	<b>1 955 291</b>	<b>1 194 640</b>	<b>1 699 820</b>

#### 3. DEPRECIATION AND AMORTISATION

Fixed asset depreciation	718 742	1 022 678	633 197	900 958
Intangible asset amortisation	73 141	104 070	71 009	101 037
<b>Total</b>	<b>791 883</b>	<b>1 126 748</b>	<b>704 206</b>	<b>1 001 995</b>

#### 4. OTHER OPERATING EXPENSES

Transportation	602 130	856 754	457 094	650 386
Commission	459 140	653 297	361 362	514 172
Service costs	186 279	265 051	194 139	276 235
Repairs	92 703	131 904	125 684	178 832
Maintenance expenses	50 407	71 723	93 172	132 572
Insurance	58 411	83 111	49 002	69 724
Business trips	37 682	53 617	53 067	75 508
Expenses relating to personnel	27 886	39 678	26 746	38 056
Communications	13 787	19 617	17 138	24 385

	<b>2006</b>	<b>EUR</b>	<b>2005</b>	<b>EUR</b>
	<b>3 months</b>	<b>0.702804</b>	<b>3 months</b>	
	<b>LVL</b>		<b>LVL</b>	
Leasing	12 117	17 241	13 976	19 886
Property tax	12 900	18 355	10 910	15 524
Office expenses	12 214	17 379	13 750	19 564
Selling expenses	12 941	18 413	14 750	20 987
Increase in doubtful debts	7 500	10 672	8 000	11 383
Other	90 235	128 393	36 418	51 818
<b>Total</b>	<b>1 676 332</b>	<b>2 385 206</b>	<b>1 475 208</b>	<b>2 099 032</b>

### 3. TRADE RECEIVABLES

	<b>2006</b>	<b>EUR</b>	<b>2005</b>	<b>EUR</b>
	<b>3 months</b>		<b>2006</b>	
	<b>LVL</b>	<b>0.702804</b>	<b>3 months</b>	<b>0.702804</b>
P-D Glasseiden Oschatz GmbH	3 336 137	4 746 895	3 561 040	5 066 903
P-D Aitec GmbH	76 618	109 018	94 773	134 850
Vitrolan Textilglas GmbH	569 386	810 163	394 672	561 568
P-D Glasfaser Brattendorf GmbH				
Other trade receivables	2 354 550	3 350 223	1 380 392	1 964 121
	<b>6 336 691</b>	<b>9 016 299</b>	<b>5 430 877</b>	<b>7 727 442</b>

**Andris Oskars Brutāns**  
Chairman of the Board