



JSC "VALMIERAS STIKLA ŠĶIEDRA"

Reg.No. 40003031676

Financial report

as at 30.Juny 2006

as at 30.Juny 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: Andris Bērziņš Hans Peter Cordts Guntis Strazds Aivars Lošmanis

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MANAGEMENT REPORT

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.

The unaudited financial statements have been prepared in accordance with International Reporting Standards (IFRS), the Latvian law "On the Annual Reports of Enterprises" and Latvian accounting standards.

In the first 6 months of 2006 the Company's sales amounted to LVL 18.273 million compared to 2005 when the sales were LVL 17.272 million. The net sales increase is LVL 1.002 million or 5.8%. 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 4.1 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	33%
Fibreglass fabrics	60%
Other	7%

The net profit for the first 6 months of 2006 was LVL 0.316 million, which is a decrease of LVL 1.026 million or 76.5% and by LVL 0.372 million or 54.1% less than planned compared to 2005. The decrease in net profit is related to an increase of actual expenditure for certain types of costs (transportation, imported semi finished products, electricity, gas, depreciation and amortisation, exchange rate fluctuations, etc.) in comparison to budgeted and fact in the first 6 months of 2005.

The share value of A/S Valmieras Stikla Šķiedra listed in Riga Stock Exchange decreased by LVL 0.50 or 18.9%, i.e., from LVL 2.64 as of 30 December 2005 to LVL 2.14 as of 30.06.2006.

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, 1.3 santimes per share.

As of June 30, 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 .0 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 30 june 2006 AND 30 june 2005

	2006	CURRENCY	2005	CURRENCY
	LVL	EXCHANGE RATE	LVL	EXCHANGE RATE
		on30/06 /2006EUR		on 30/06 2005 EUR
ASSETS				
<i>Non-current assets</i>		0.702804		0.702804
<i>Intangible assets</i>				
Patents and licenses	77 879	110 812	68 373	97 286
Other intangible assets	113 309	161 224	385 251	548 163
Total intangible assets	191 188	272 036	453624	464 348
<i>Fixed assets</i>				
Land and buildings	5 190 420	7 385 302	4 963 667	7 062 662
Equipment and machinery	13 311 546	18 940 624	14 211 499	20 221 141
Other fixed assets	399 329	568 194	521 140	741 515
Construction in progress	4 936 716	7 024 314	49 049	69 790
Advance payments for fixed assets	3 441 879	4 897 353	192 870	274 429
Total fixed assets	27 279 890	38 815 786	19 938 225	28 369 538
Total non-current assets	27 471 078	39 087 822	20 391 849	29 014 987
<i>Current assets</i>				
<i>Inventory</i>				
Raw materials	7 230 678	10 288 328	7 450 002	10 600 398
Work in progress	2 070 889	2 946 610	1 681 709	2 392 856
Finished goods	3 114 161	4 431 052	2 226 840	3 168 508
Advance payments for inventories	135 207	192 382	125 528	178 610
Total inventory	12 550 935	17 858 372	11 484 079	16 340 372
<i>Accounts receivable</i>				
Trade receivables	6 418 809	9 133 142	6 325 526	9 000 413
Other receivables	448 079	637 559	261 633	372 270
Deferred expenses	112 480	160 045	117 133	166 665
Total accounts receivable	6 979 368	9 930 746	6 704 292	9 539 348
Cash and cash equivalents	174 188	247 847	699 579	995 411
Total current assets	19 704 491	28 036 965	18 887 950	26 875 132
TOTAL ASSETS	47 175 569	67 124 787	39 279 799	55 890 119

JSC VALMIERAS STIKLA ŠĶIEDRA

BALANCE SHEET

AS AT 30 Juny 2006 AND 30 Juny 2005

	2006	CURRENCY	2005	CURRENCY
	LVL	EXCHANGE RATE	LVL	EXCHANGE RATE
		on 30/06 2006 EUR		on 30/ 06 2005 EUR
LIABILITIES & SHAREHOLDERS EQUITY		0.702804		0.702804
Shareholders' equity				
Share capital	23 903 205	34 011 197	23 903 205	34 011 197
Reserves			234 533	333 710
Retained earnings:				
a) retained earnings	3 821 456	5 437 442	2 660 237	3 785 176
b) current year profit	315 761	449 287	1 342 042	1 909 554
Total shareholders' equity	28 040 422	39 897 926	28 140 017	40 039 637
Liabilities				
Non-current liabilities				
Due to credit institutions	9 605 228	13 667 008		
Finance lease	19 475	27 710	46 465	66 114
Deferred tax	1 522 253	2 165 971	1 260 497	1 793 526
Total non-current liabilities	11 146 956	15 860 689	1 306 962	1 859 639
Current liabilities				
Due to credit institutions	4 935 202	7 022 160	5742646	8 171 049
Finance lease	17 986	25 592	8996	12 800
Advance payments from customers	23 047	32 793	13999	21 839
Trade payables	2 055 846	2 925 205	3291187	4 682 937
Taxes and social security payments	205 312	292 133	218206	310 479
Other accounts payable	208 716	296 976	204541	291 036
Accrued liabilities	376 701	535 997	341920	486 508
Dividend for the financial year	165 381	235 316	11325	16 114
Total current liabilities	7 988 191	11 366 172	9832820	13 990 842
Total liabilities	19 135 147	27 226 861	11 139 782	17 503 020
TOTAL LI	47 175 569	67 124 787	39 279 799	55 890 119

JSC VALMIERAS STIKLA ŠKIEDRA

STATEMENT OF PROFIT AND LOSS

FOR THE YEARS ENDED 30 June 2006 AND 30 June 2005

	30.06.2006		30.06.2005	
	LVL	EUR	LVL	EUR
		0.702804		0.702804
Revenues	18 273 172	26 000 381	17 271 660	24 575 358
Changes in inventories	(858 714)	(1 221 840)	(42 998)	(61 181)
Other operating income	135 263	192 462	77 502	110 275
Raw materials and consumables	(8 694 643)	(12 371 362)	(8 499 198)	(12 093 269)
Personnel expenses	(2 856 308)	(4 064 160)	(2 581 965)	(3 673 805)
Depreciation and amortization	(1 649 094)	(2 346 449)	(1 487 028)	(2 115 850)
Other operating expenses	(3 582 845)	(5 097 929)	(3 209 889)	(4 567 261)
Profit from operations	766 831	1 091 102	1 528 084	2 174 268
Interest - and similar income	411	585	37 913	53 945
Interest - and similar expenses	(271 481)	(386 283)	(73 955)	(105 228)
Profit before taxes	495 761	705 404	1 492 042	2 122 985
Corporate income tax	(180 000)	(256 117)	(150 000)	(213 431)
Net profit	315 761	449 287	1 342 042	1 909 554
Basic earnings per share	0.0132	0.0188	0.0561	0.0798

A/S VALMIERAS STIKLA SKIEDRA

<i>STATEMENTS OF CASH FLOWS</i>	2006 Year	2006 Year	2005 Year	2005 Year
	6 months	6 months	6 months	6 months
	LVL	EUR	LVL	EUR
<i>I OPERATING ACTIVITIES</i>		0.702804		0.702804
1. Profit before taxes	495 761	705 404	1 492 042	2 122 985
Adjustments:				
2. Depreciation and amortization	1 649 094	2 346 449	1 487 028	2 115 850
3. Depletion of precious metals	56 647	80 601	48 850	69 507
4. Accruals for vacations and bonuses for board and council members	126 000	179 282	235 200	334 659
5. Profit or loss from disposal of fixed assets	(17 055)	(24 267)	(1 893)	(2 693)
6. Calculated interest income	(0 362)	(0 515)	(0 217)	(0 309)
7. Calculated interest expenses	93 922	133 639	70 044	99 664
Changes in operating assets and liabilities:				
1. Inventory	535 125	761 414	(592 100)	(842 482)
2. Accounts receivable	(2 000 323)	(2 846 203)	(3 125 416)	(4 447 066)
3. Accounts payable	87 254	124 151	1 583 710	2 253 416
Cash provided by operating activities	1 026 063	1 459 956	1 197 248	1 703 530
<i>II INVESTING ACTIVITIES</i>				
1. Purchase of fixed assets	(7 677 246)	(10 923 737)	(1 872 205)	(2 663 908)
2. Proceeds from sale of fixed assets	66 150	94 123	11 242	15 996
3. Received interest income	0 362	0 515	0 217	0 309
Net cash used in investing activities	(7 610 734)	(10 829 099)	(1 860 746)	(2 647 603)
<i>III FINANCING ACTIVITIES</i>				
1. Received loan from credit institution	7 642 045	10 873 650	5 184 062	7 376 256
2. Paid credit institution	(1 466 583)	(2 086 760)	(4 481 846)	(6 377 092)
3. Received credit line	24 135 420	34 341 609	16 359 762	23 277 844
4. Paid credit line	(23 735 193)	(33 772 137)	(15 102 377)	(21 488 747)
5. Paid finance lease	(8 991)	(12 793)	(8 991)	(12 793)
6. Dividends paid	(145 360)	(206 829)	(884 418)	(1 258 413)
7. Interest expenses paid	93 768	133 420	(76 401)	(108 709)
Net cash provided by financing activities	6 515 106	9 270 161	989 791	1 408 346
Net decrease in cash	(69 565)	(98 982)	326 293	464 273
Cash and cash equivalents at the beginning of the year	243 753	346 829	373 286	531 138
Cash at the end of the period	174 188	247 847	699 579	995 411

A/S "Valmieras stikla šķiedra "

Statements of shareholders' equity

In 6 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 6 Months 2005profit			1 342 042	1 342 042			1 909 554	1 909 554
As of 30 Juny 2005	23 903 205	234 533	4 886 697	29 024 435	34 011 197	333 710	6 953 143	41 298 050
Dividends paid			(884 418)	(884 418)			(1 258 413)	(1 258 413)
Current IV-XII 2005 profit		(234 533)	129 919	(104 614)		(333 710)	184 858	(148 852)
AS of 31 december 2005	23 903 205	0 000	4 132 198	28 035 403	34 011 197	0 000	5 879 588	39 890 785
Current 6 Months 2006 profit			315 761	315 761			449 287	449 287
Dividends paid			(310 742)	(310 742)			(442 146)	(442 146)
Current of 30 juny 2006	23 903 205	0 000	4 137 217	28 040 422	34 011 197	0 000	5 886 729	39 897 926

Andris Oskars Brutāns
Chairman of the Board

ANNEX

1. SHARE CAPITAL

The company's registered share capital as at 30 June 2006 and 2005 was LVL 23.903.205. The company's paid share capital registered with the Enterprise Register as at 30 June 2005 and 2004 was 23.903.205, consisting of 23.897.455 ordinary shares with voting rights and 5.750 ordinary shares without voting rights. The nominal value of each share is LVL 1.

As at 30 June 2006 and 2005 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	2006	2005
	6 Months	6 Months
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
Vitrulan Textilglas GmbH	30.8%	30.8%
Skandinaviska Enskilda Banken Ab	4.4%	7.8%
VAS VSAA	2.4%	2.4%
Nordea Bank Finland Plc	3.9%	2.6%
P.D.P.Fiberglass Consulting Ltd.	4.6%	4.6%
Other	8.6%	6.5%
	100.00%	100.0%

2. INFORMATION CONCERNING THE PROFIT OR LOSS ACCOUNT

1. MATERIAL EXPENSES

	2006	EUR	2005	EUR
	6 Months		6 Months	
	LVL	0.702804	LVL	0.702804
Raw materials	6 866 343	9 769 926	7 147 562	10 170 064
Electricity	627 049	892 210	564 490	803 197
Ore processing costs	149 174	212 255	132 035	187 869
Natural gas	543 696	773 610	355 942	506 460
Depletion of ore	56 647	80 601	48 990	69 706
Other	451 734	642 760	250 179	355 973
Total	8 694 643	12 371 362	8 499 198	12 093 269

2. PERSONNEL EXPENSES

Salaries	1 913 758	2 723 032	1 683 969	2 396 072
Social security payments	498 513	709 320	441 733	628 529
Illness and vacation expenses	201 582	286 825	147 310	209 603
Provisions for bonuses of Board and Council	119 500	170 033	235 200	334 659
Other	122 955	174 949	73 753	104 941
Total	2 856 308	4 064 160	2 581 965	3 673 805

3. DEPRECIATION AND AMORTISATION

Fixed asset depreciation	1 502 439	2 137 778	1 343 997	1 912 335
Intangible asset amortisation	146 655	208 671	143 031	203 515
Total	1 649 094	2 346 449	1 487 028	2 115 850

4. OTHER OPERATING EXPENSES

Transportation	1 322 672	1 881 993	1 080 808	1 537 851
Commission	1 043 746	1 485 117	818 681	1 164 878
Service costs	389 724	554 527	390 501	555 633
Repairs	179 337	255 174	276 023	392 745
Maintenance expenses	97 344	138 508	143 923	204 784
Insurance	113 705	161 788	101 791	144 836
Business trips	79 791	113 532	91 740	130 534
Expenses relating to personnel	45 886	65 290	41 515	59 071
Communications	32 103	45 678	38 029	54 110
Leasing	28 024	39 875	30 350	43 184
Property tax	30 537	43 450	21 038	29 934
Office expenses	21 578	30 703	29 127	41 444
Selling expenses	27 898	39 695	31 277	44 503
Increase in doubtful debts	12 500	17 786	17 000	24 189
Other	158 000	224 814	98 086	139 564
Total	3 582 845	5 097 929	3 209 889	4 567 261

3. TRADE RECEIVABLES

	2006	EUR	2005	EUR
	6 months		3 months	
	LVL	0.702804	LVL	0.702804
P-D Glasseiden Oschatz GmbH	3 126 549	4 448 678	3 865 118	5 499 567
P-D Aitec GmbH	85 882	122 199	89 389	127 189
Vitrolan Textilglas GmbH	659 598	938 523	677 642	964 198
Other trade receivables	2 546 780	3 623 741	1 693 377	2 409 458
	6 418 809	9 133 142	6 325 526	9 000 413

Andris Oskars Brutāns

Chairman of the Board