



JSC "VALMIERAS STIKLA ŠĶIEDRA"

Reg.No. 40003031676

Not audited

Financial report

as at 30.September 2006

as at 30.September 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 9 months of 2006 the Company's sales amounted to LVL 26.928 million compared to 2005 when the sales were LVL 25.810 million. The net sales increase is LVL 1.118 million or 4.3%. 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 13.8 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	32%
Fibreglass fabrics	62%
Other	6%

The net profit for the first 9 months of 2006 was LVL 0.04 million, which is a decrease of LVL 1.419 million or 97.2% and by LVL 1.055 million or 96.3% 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 9 months of 2005.

The share value of A/S Valmieras Stikla Šķiedra listed in Riga Stock Exchange decreased by LVL 0.30 or 11.4%, i.e., from LVL 2.64 as of 30 December 2005 to LVL 2.34 as of 30.09.2006.

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 September 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 43.7 million, and have profit of LVL 1.5 million.

Total budgeted investments for 2006 equal LVL 25 727 million.

JSC VALMIERAS STIKLA ŠĶIEDRA

BALANCE SHEET

AS AT 30 september 2006 AND 30 september 2005

	2006	CURRENCY	2005	CURRENCY
	LVL	EXCHANGE RATE	LVL	EXCHANGE RATE
		on 30/09/2006 EUR		on 30/09 2005 EUR
ASSETS				
<i>Non-current assets</i>				
<i>Intangible assets</i>				
Patents and licenses	72 445	103 080	65 441	93 114
Other intangible assets	45 324	64 490	317 265	451 427
Total intangible assets	117 769	167 570	382706	464 348
<i>Fixed assets</i>				
Land and buildings	5 132 226	7 302 500	5 139 425	7 312 743
Equipment and machinery	12 808 723	18 225 171	13 915 553	19 800 048
Other fixed assets	366 576	521 591	493 047	701 543
Construction in progress	14 506 267	20 640 558	351 932	500 754
Advance payments for fixed assets	4 269 567	6 075 047	527 036	749 905
Total fixed assets	37 083 359	52 764 866	20 426 993	29 064 993
Total non-current assets	37 201 128	52 932 436	20 809 699	29 609 534
<i>Current assets</i>				
<i>Inventory</i>				
Raw materials	6 751 189	9 606 077	7 063 523	10 050 488
Work in progress	1 900 720	2 704 481	1 771 892	2 521 175
Finished goods	2 905 120	4 133 613	2 642 026	3 759 264
Advance payments for inventories	134 072	190 767	56 372	80 210
Total inventory	11 691 101	16 634 938	11 533 813	16 411 137
<i>Accounts receivable</i>				
Trade receivables	5 635 377	8 018 419	5 876 860	8 362 018
Other receivables	374 274	532 544	276 689	393 693
Deferred expenses	277 005	394 143	162 358	231 015
Total accounts receivable	6 286 656	8 945 106	6 315 907	8 986 726
Cash and cash equivalents	768 654	1 093 696	314 236	447 118
Total current assets	18 746 411	26 673 740	18 163 956	25 844 981
TOTAL ASSETS	55 947 539	79 606 176	38 973 655	55 454 515

JSC VALMIERAS STIKLA ŠĶIEDRA

BALANCE SHEET

AS AT 30 september 2006 AND 30 september 2005

	2006	CURRENCY	2005	CURRENCY
	LVL	EXCHANGE RATE	LVL	EXCHANGE RATE
		on 30/09 2006 EUR		on 30/ 09 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	40 868	58 150	1 459 766	2 077 060
Total shareholders' equity	27 765 529	39 506 789	28 257 741	40 207 143
Liabilities				
Non-current liabilities				
Due to credit institutions	20 537 902	29 222 802	1 967 156	
Finance lease	14 979	21 313	32 979	46 925
Deferred tax	1 492 253	2 123 285	1 335 497	1 900 241
Total non-current liabilities	22 045 134	31 367 400	3 335 632	4 746 177
Current liabilities				
Due to credit institutions	2 952 146	4 200 525	4699150	6 686 288
Finance lease	17 986	25 592	17986	25 592
Advance payments from custor	21 281	30 280	13629	21 839
Trade payables	2 373 779	3 377 583	2071359	2 947 278
Taxes and social security paym	184 134	261 999	166898	237 474
Other accounts payable	177 610	252 716	161609	229 949
Accrued liabilities	409 940	583 292	249651	355 221
Dividend for the financial year				
Total current liabilities	6 136 876	8 731 988	7380282	10 501 195
Total liabilities	28 182 010	40 099 388	10 715 914	15 247 372
TOTAL LI	55 947 539	79 606 176	38 973 655	55 454 515

JSC VALMIERAS STIKLA ŠKIEDRA

STATEMENT OF PROFIT AND LOSS

FOR THE YEARS ENDED 30 SEPTEMBER 2006 AND 30 SEPTEMBER 2005

	2006.9.30		2005.9.30	
	LVL	EUR	LVL	EUR
		0,702804		0,702804
Revenues	26 927 597	38 314 519	25 809 730	36 723 937
Changes in inventories	(1 237 924)	(1 761 407)	462 371	(657 895)
Other operating income	170 402	242 460	113 779	161 893
Raw materials and consumables	(13 264 141)	(18 873 172)	(13 446 761)	(19 133 017)
Personnel expenses	(4 192 191)	(5 964 950)	(3 811 689)	(5 423 545)
Depreciation and amortization	(2 483 617)	(3 533 869)	(2 306 386)	(3 281 692)
Other operating expenses	(5 322 779)	(7 573 632)	(5 077 789)	(7 225 043)
Profit from operations	597 347	849 948	1 743 255	2 480 428
Interest - and similar income	1212	1 725	57 429	81 714
Interest - and similar expenses	(391 089)	(556 470)	(115 918)	(164 936)
Profit before taxes	207 470	295 203	1 684 766	2 397 206
Corporate income tax	(166 602)	(237 053)	(225 000)	(320 146)
Net profit	40 868	58 150	1 459 766	2 077 060
Basic earnings per share	0,0017	0,0024	0,0611	0,0869

A/S VALMIERAS STIKLA SKIEDRA

STATEMENTS OF CASH FLOWS

	2006 Year 9 months LVL	2006 Year 9 months EUR	2005 Year 9 months LVL	2005 Year 9 months EUR
I OPERATING ACTIVITIES		0,702804		0,702804
1. Profit before taxes	207 470	295 203	1 684 766	2 397 206
Adjustments:				
2. Depreciation and amortization	2 483 617	3 533 869	2 306 386	3 281 692
3. Depletion of precious metals	76 191	108 410	74 264	105 668
4. Provisions for vacations and bonuses for board and council members	(135 900)	(193 368)	153 169	217 940
5. Loss from disposal of fixed assets	(15 832)	(22 527)	(1 441)	(2 050)
6. Calculated interest income	(1 163)	(1 655)	(0 398)	(0 566)
7. Calculated interest expenses	136958	194 874	113 868	162 020
Changes in operating assets and liabilities:				
1. Inventory	1 394 959	1 984 848	(641 834)	(913 248)
2. Accounts receivable	(1 307 611)	(1 860 563)	(2 737 031)	(3 894 444)
3. Accounts payable	218 995	311 602	428 271	609 375
Cash provided by operating activities	3 361 148	4 782 483	1 380 020	1 963 592
II INVESTING ACTIVITIES				
1. Purchase of fixed assets	(17 966 459)	(25 563 968)	(3 312 309)	(4 712 991)
2. Proceeds from sale of fixed assets	64 927	92 383	7 710	10 970
3. Received interest income	1 163	1 655	0 398	0 566
Net cash provided by/(used) financing activities	(17 900 369)	(25 469 930)	(3 304 201)	(4 701 454)
III FINANCING ACTIVITIES				
1. Received loan from credit institution	18 575 663	26 430 787	7 151 217	10 175 265
2. Paid credit institution	(1 936 638)	(2 755 588)	(6 238 562)	(8 876 674)
3. Received credit line	34 300 792	48 805 630	27 279 915	38 815 822
4. Paid credit line	(35 414 509)	(50 390 307)	(25 309 310)	(36 011 904)
5. Paid finance lease	(13 486)	(19 189)	(13 486)	(19 189)
6. Dividends paid	(310 742)	(442 146)	(884 418)	(1 258 413)
7. Interest expenses paid	(136 958)	(194 874)	(120 225)	(171 065)
Net cash provided by/(used in) financing activities	15 064 122	21 434 315	1 865 131	2 653 842
Net decrease in cash	524 901	746 867	(59 050)	(84 021)
Cash at the beginning of the year	243 753	346 829	373 286	531 138
Cash at the end of the period	768 654	1 093 696	314 236	447 118

A/S "Valmieras stikla šķiedra "

*Statements of shreholders"equity
In 9 months of 2006*

	rate of exchange				0,702804			
	Share capital LVL	Statutory reserves LVL	Retained earnings LVL	Total LVL	Share capital EUR	Statutory reservesEU R	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 9 Months2005profit			1 459 766	1 459 766			2 077 060	2 077 060
Dividends paid			(884 418)	(884 418)			(1 258 413)	(1 258 413)
As of 30.september 2005	23 903 205	234 533	4 120 003	28 257 741	34 011 197	333 710	5 862 236	40 207 143
Current X-XII 2005 profit		(234 533)	12 195	(222 338)		(333 710)	17 352	(316 358)
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 9 months 2006			40 868	40 868			58 150	58 150
Dividends paid			(310 742)	(310 742)			(442 146)	(442 146)
As of 30september 2006	23 903 205	0 000	3 862 324	27 765 529	34 011 197	0 000	5 495 592	39 506 789

Andris Oskars Brutāns
Chairman of the Board

ANNEX

1. SHARE CAPITAL

The kompanys registered share capital as of 30. September 2006 and 2005 was LVL 23.903.205. The Company s paid share capital registered with the Enterprise Register as of 30 September 2006 and 2005 was 23.903.205 consisting of 23.897.455 ordinary shares with voting rights and 5.750 ordinari shares without voting rights. The nominal value of each share is LVL1.

As of 30 September 2006and 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%
Vitulan 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 FOR "PROFIT OR LOSS ACCOUNT

1. MATERIAL EZPENSES

	2006		2005	
	9Months	EUR	9 months	EUR
	LVL	0,702804		0,702804
Raw materials	10 633 485	15 130 086	11 442 178	16 280 753
Electricity	905 058	1 287 782	861 226	1 225 414
Ore processing costs	202 348	287 915	196 765	279 971
Natural gas	792 509	1 127 639	534 518	760 551
Depletion of ore	76 191	108 410	74 403	105 866
Other	654 550	931 341	337 671	480 463
Total	13 264 141	18 873 172	13 446 761	19 133 017

2.PERSONNEL EXPENSES

Salaries	2 780 310	3 956 025	2 605 691	3 707 564
Social security payments	736 074	1 047 339	685 145	974 874
Illness and vacation expenses	406 864	578 915	326 007	463 866
Provisions for bonuses of Board and Council	228 298	324 839	153 169	#DIV/0!
Other	40 645	57 833	41 677	59 301
Total	4 192 191	5 964 950	3 811 689	5 423 545

3.DEPRECIATION AND AMORTIZATION

Fixed asset depreciation	2 263 419	3 220 555	2 090 681	2 974 771
Intangible asset amortization	220 198	313 314	215 705	306 921
Total	2 483 617	3 533 869	2 306 386	3 281 692

4.OTHER OPERATING EXPENSES

Transportation	1 956 722	2 784 165	1 761 028	1 327 955
Commission	1 563 018	2 223 974	1 294 082	1 841 313
Service costs	546 068	776 985	611 519	870 113
Repairs	305 259	434 344	438 576	624 037
Maintenance expenses	157 676	224 353	219 083	311 727
Insurance	155 105	220 695	148 888	211 849
Business trips	110 348	157 011	128 110	182 284
Expenses relating to personnel	105 869	150 638	70 629	100 496
Communications	47 150	67 088	55 854	79 473
Leasing	55 825	79 432	41 136	58 531
Property tax	48 174	68 545	41 294	58 756
Office expenses	39 433	56 108	41 568	59 146
Selling expenses	35 947	51 148	46 792	66 579
Increase in doubtful debts	12 500	17 786	22 000	31 303
Other	183 685	261 360	157 230	223 718
Total	5 322 779	7 573 632	5 077 789	7 225 043

3. TRADE RECEIVABLES

	2006	EUR	2005	EUR
	9 month		9 month	
	LVL	0,702804		0,702804
P-D Glasseiden Oschatz GmbH	2 719 668	3 869 739	3 248 024	4 621 522
P-D Aitec GmbH	56 363	80 197	10 914	15 529
Vitrolan Textilglas GmbH	565 674	804 882	608 051	865 179
Other trade receivables	2 293 672	3 263 601	2 009 871	2 859 789
	5 635 377	8 018 419	5 876 860	8 362 018

Andris Oskars Brutāns

Chairman of the Board