



A/S Valmieras Stikla Skiedra

No.OF reg.40003031676

Not audited
Financial report

31 December 2006
for 31 December 2005

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COMPANY NAME	Valmieras Stikla Skiedra
LEGAL STATUS	Joint Stock Company
REGISTRATION NUMBER, PLACE AND DATE	No. 40003031676 Riga, 30 September 1990
TYPE OF BUSINESS	Production of glass fibre
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

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 14 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 12 months of 2006 the Company's sales amounted to LVL34.986 million compared to 2005 when the sales were LVL 32.688million. The net sales increase is LVL 2.298million or 7.03%. 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 26 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	35%
Fibreglass fabrics	53%
Other	12%

The net profit for the first 12 months of 2006 was LVL 0.72 million, which is a decrease of LVL 0.518 million or 41.8% and by LVL 0.543 million or 43.0% 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 12 months of 2005.

The share value of A/S Valmieras Stikla Šķiedra listed in Riga Stock Exchange decreased by LVL 0.28 or 10.6%, i.e., from LVL 2.64 as of 30 December 2005 to LVL 2.36 as of 30.12.2006.

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 december 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 2007 are LVL 44.301 million, net profit - LVL 1.445 million. In 2008 the Company plans sales of LVL 54 million, and have profit of LVL 3.2 million.

Total budgeted investments for 2007 equal LVL 1.2 million.

	2006.12.31		2005.12.31	
	LVL	EUR	LVL	EUR
ASSETS		0,702804		0,702804
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	70 451	100 243	326 346	464 349
Fixed assets				
Land and buildings	11 537 020	16 415 701	4 990 321	7 100 587
Equipment and machinery	28 051 799	39 914 114	13 706 596	19 502 729
Other fixed assets	629 646	895 906	472 842	672 794
Construction in progress	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	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	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	4 463 165	6 350 512	4 533 998	6 451 298
Other receivables	559 619	796 266	250 752	356 788
Deferred expenses	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	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

	2006.12.31		2005.12.31	
	LVL	EUR	LVL	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	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	25 300 919	35 999 964	2 563 544	3 647 594
Finance lease	10 484	14 917	28 465	40 502
Deferred tax	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	1 631 914	2 322 004	5 401 197	7 685 211
Finance lease	17 986	25 592	17 986	25 592
Advance payments from customers	59 492	84 649	15 349	21 840
Trade payables	3 427 835	4 877 370	2 194 430	3 122 393
Taxes and social security payments	291 539	414 823	293 444	417 533
Other accounts payable	339 815	483 513	206 316	293 561
Accrued liabilities	147 072	209 265	238 209	338 941
Deferred income	1 400	1 992		
Derivatives	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'	60 535 365	86 134 064	40 336 596	57 393 805

	2006		2005	
	LVL	EUR	LVL	EUR
		0,702804		0,702804
Revenues	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	287 768	409 457	108 008	153 682
Other operating income	218 887	311 448	137 383	195 478
Raw materials and consumables	(17 207 364)	(24 483 873)	(17 628 325)	(25 082 847)
Personnel expenses	(5 971 638)	(8 496 875)	(5 511 498)	(7 842 155)
Depreciation and amortization	(3 480 657)	(4 952 529)	(3 118 542)	(4 437 286)
Other operating expenses	(7 057 152)	(10 041 423)	(7 131 358)	(10 147 008)
Profit from operations	803 462	1 143 223	1 636 281	2 328 218
Interest - and similar income	1 770	2 518	61 641	87 707
Interest - and similar expenses	(740 918)	(1 054 231)	(175 733)	(250 046)
Profit before taxes	64 314	91 511	1 522 189	2 165 880
Corporate income tax	655 367	932 503	(284 761)	(405 178)
Net profit	719 681	1 024 014	1 237 428	1 760 701
Basic earnings per share	0,0301	0,0428	0,0518	0,0737

	Share capital		Retained earnings		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
As of 31 December 2004	23 903 205	0,702804 34 011 197	3 779 188	0,702804 5377300	27 682 393	0,702804 39 388 497
Dividends paid	-		(884 418)	(1 258 413)	(884 418)	(1 258 413)
Current year profit	-		1 237 428	1760701	1 237 428	1 760 701
As of 31 December 2005	23 903 205	34 011 197	4 132 198	5 879 588	28 035 403	39 890 785
Dividends paid			(310 742)	(442 146)	(310 742)	(442 146)
Current year profit			719681	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	40 472 653

	2006		2005	
	LVL	EUR 0,702804	LVL	EUR 0,702804
operating activities				
Profit before taxes	64 314	91 511	1 522 189	2 165 880
Adjustments:				
Depreciation and amortization	3 480 657	4 952 529	3 118 542	4 437 286
Depletion of precious metals	97 602	138 875	92 587	131 739
Accruals for vacations and bonuses for board and council members	(91 137)	(129 676)	30 487	43 379
Profit or loss from disposal of fixed assets	4 608	6 557	64 261	91 435
Calculated interest income	(1 770)	-2 518	(0 516)	-0 734
Calculated interest expenses	664 020	944 815	181 047	257 607
Changes in value of derivative financial instruments	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	(442 519)	(629 648)	(1 400 169)	(1 992 261)
Accounts payable	1 604 969	2 283 665	270 938	385 510
Cash provided by operating activities	6 781 282	9 648 895	1 787 125	2 542 850
investing activities				
Purchase of fixed assets	(24 499 165)	(34 859 171)	(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	0 516	0 734
Net cash used in investing activities	(24 432 467)	(34 764 269)	(5 014 907)	(7 135 570)
Financing activities				
Received loans from credit institution	22 737 375	32 352 370	10 136 558	14 423 023
Paid loans to credit institution	(1 686 732)	(2 400 003)	(7 995 282)	(11 376 261)
Received credit line	38 897 957	55 346 807	38 094 964	54 204 250
Paid credit line	(40 980 508)	(58 310 010)	(36 054 544)	(51 300 994)
Paid finance lease	(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 decrease in cash	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	567 917	808 073	243 753	346 829

ANNEX

1. SHARE CAPITAL

The kompanys registered share capital as of 31.December 2006 and 2005 was LVL 23.903.205. The Company s paid share capital registered with the Enterprise Register as of 31.December 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 31.December 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%
VitruLAN Textilglas GmbH	30.8%	30.8%
Skandinaviska Enskilda Banken Ab	3.3%	7.6%
VAS VSAA	2.4%	2.4%
Nordea Bank Finland Plc	4.0%	2.6%
P.D.P.Fiberglass Consulting Ltd	4.6%	4.6%
Braune Beatrix	2.6%	0.2%
Other	7.0%	6.5%
	100,00%	100.0%

2.INFORMATION FOR "PROFIT OR LOSS ACCOUNT

1. MATERIAL EZPENSES

	2006		2005	
	12months	EUR	12 months	EUR
	LVL	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
Ore processing costs	1 151 320	1 638 181	764 983	1 088 473
Natural gas	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

2.PERSONNEL EXPENSES

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
Provisions for bonuses of Board and Council	104 900	149 259	173 500	#DIV/0!
Other	228 406	324 992	179 981	256 090
Total	6 029 349	8 578 991	5 511 498	7 842 155

3.DEPRECIATION AND AMORTIZATION

Fixed asset depreciation	3 209 574	4 566 812	2 829 961	4 026 672
Intangible asset amortization	271 083	385 716	288 581	410 614
Total	3 480 657	4 952 529	3 118 542	4 437 286

4.OTHER OPERATING EXPENSES

Transportation	2 556 210	3 637 159	2 378 448	1 327 955
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
Repairs	430 876	613 081	639 903	910 500
Maintenance expenses	222 367	316 400	319 017	453 920
Insurance	155 059	220 629	154 927	220 441
Business trips	157 711	224 403	179 343	255 182
Expenses relating to personnel	58 381	83 069	52 063	74 079
Communications	69 978	99 570	77 970	110 941
Leasing	73 561	104 668	71 461	101 680
Property tax	63 210	89 940	58 904	83 813
Office expenses	56 804	80 825	56 977	81 071
Selling expenses	44 635	63 510	56 727	80 715
Increase in doubtful debts	4 471	6 362	-	-
Other	286 659	407 879	257 880	366 930
Total	6 929 806	9 860 226	7 131 358	10 147 008

3. TRADE RECEIVABLES

	2006	EUR	2005	EUR
	12 month		12 month	
	LVL	0,702804		0,702804
P-D Glasseiden Oschatz GmbH	2 203 797	3 135 721	2 607 833	3 710 612
P-D Aitec GmbH	22 455	31 951	4 369	6 217
Vitrolan Textilglas GmbH	180 224	256 436	193 993	276 027
Other trade receivables	2 056 689	2 926 405	1 727 803	2 458 442
	4 463 165	6 350 512	4 533 998	6 451 298

5 March 2007

Deloitte Audits Latvia SIA
Bīskapa gāte 2
Rīga, LV –1050,
Latvija

This representation letter is provided in connection with your audit of the financial statements of **Valmieras Stikla Skiedra JSC** for the year ended **31 December 2006** for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of **Valmieras Stikla Skiedra JSC** as of **31 December 2006** and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Latvian law On the Annual Reports.

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the International Financial Reporting Standards and the Latvian law On Annual Reports.

We confirm, to the best of our knowledge and belief, the following representations:

We acknowledge our responsibilities for the implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We are not aware of any significant facts relating to any frauds or suspected frauds known that may have involved

- (i) Management;
- (ii) Employees who have significant roles in internal control; or
- (iii) Others where the fraud could have a material effect on the financial statements.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements that have been communicated to us by employees, former employees, analysts, regulators or others.

There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or who could have a material effect on the financial statements.

We have made available to you all books of account and supporting documentation and all minutes of meetings of shareholders and the board of directors.

We confirm the completeness of the information provided regarding the identification of related parties.

We believe that the financial statements are free of material misstatements, including omissions.

The company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of noncompliance. There has been no noncompliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of noncompliance.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

- The identity of, and balances and transactions with, related parties
- Losses arising from sale and purchase commitments
- Assets pledged as collateral

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realizable value.

The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the financial statements.

We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

There have been no events subsequent to period end that require adjustment of or disclosure in the financial statements or Notes thereto.

We confirm that as of 5 March 2007 there were no material claims or possible material claims brought against Valmieras Stikla Skiedra JSC. For the purpose of this letter material claims or possible claims can be defined as cases which in our opinion could result in a liability of an amount greater than LVL 20,000.

We believe that lease transactions are classified correctly.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no credit arrangements except for those disclosed in financial statements.

All significant assumptions relating to fair values included in the accounts are reasonable and appropriately reflect our intent and ability to carry out planned actions on behalf of the entity that are relevant to fair value measurements or disclosures.

We believe the effects of those uncorrected financial statement misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the Financial statements taken as a whole. The uncorrected known and likely misstatements are as follows:

- Included in the balance sheet are raw materials which have not been used for more than 24 months of total LVL 47 thousand for which no allowance has been provided for;
- Classification error of the loan management fee of LVL 27 thousand (presented as deferred expenses, correct classification - reduction in loan balance);
- No impairment provision recorded for 2-stage melting facility. The likely misstatement amounts to LVL 105 thousand.

We believe that financial statements for the year ended 31 December 2006 comply with the requirements on Financial Instrument Market law.

We are convinced that capitalized reconstruction costs of buildings of total LVL 283 thousand represents additions, not replacements, and these items should not have been expensed.

We confirm that transactions with related companies are made on arms-length basis. We understand and accept the tax risks in respect of prices used for the transactions with related companies. We believe that the tax treatment of the agreement with P-D Glasseiden Oschatz GmbH on technical assistance for the new manufacturing plant is correct. If challenged by tax authority, we are able to obtain/produce necessary explanations and supporting information to satisfy the authorities.

Andris Oskars Brutāns
Chairman of the Board

Imants Saulītis
Financial Director