



AS Valmieras Stikla Skiedra

*Annual report for the year 2007
prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union
and Independent Auditor's Report*

AS VALMIERAS STIKLA SKIEDRA

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AS VALMIERAS STIKLA SKIEDRA

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 (till 10.01.2007) Hans Peter Cordts Guntis Strazds Frank Behrends (from 28.05. 2007) Aivars Lošmanis
REPORTING YEAR	1 January 2007 - 31 December 2007
PRIOR REPORTING YEAR	1 January 2006 - 31 December 2006
AUDITORS AND THEIR ADDRESS	Deloitte Audits Latvia Ltd. License No. 43 4a Gredu Str. Riga, LV-1019, Latvia Inguna Staša Sworn Auditor Certificate no. 145

MANAGEMENT REPORT

The Company's primary business is manufacture and sale of fibreglass and fibreglass products. The production is sold in Europe, USA, Japan, Canada, Australia, Russia, Ukraine and the Baltic states, total in 29 countries to 93 customers. 71% of the total production is sold to companies in the European Union; export sales comprise 94% of total sales.

Since 2000 the Company operates in accordance with DIN EN ISO 9001:2000 quality management certificate, which was issued and is audited every three years by the German Quality management system certification company DQS located in Frankfurt. In 2007 the Company received a renewed certificate.

Total sales and net profit for the last 3 years are as follows:

	Sales Thousand EUR	Net profit EUR
2005	46,511	1,760,701
2006	49,781	1,024,014
2007	52,935	91,566

In November 2006 the Company opened a new manufacturing plant of total capacity of 11 thousand fibreglass products per annum. Simultaneously, the two-stage manufacturing plant was closed down. Total investments in the new plant amounted to 38 million EUR.

In 2007 the Company continued investing in manufacturing equipment (total investments of 6.64 million EUR), which significantly exceeded the budgeted amount, mainly because of enhancement of textile processing equipment.

Main production types in 2007 were fibreglass textiles (58%) and threads (36%). During the process of acquisition of the new manufacturing plant, the Company continued purchasing fibreglass thread from other companies in order to ensure successful completion of sales contracts for 2007.

The net profit target for 2007 of EUR 2.069 million was not achieved because the new manufacturing plant started to operate in full capacity only in July 2007 and due to increased depletion of fire-proof materials it was also required to decrease the output of the plant acquired in 2001. The profit margin was also adversely affected by the increase in energy prices (increase of 48% at year end in comparison to the beginning of the year), increase in labour expense, decrease in exchange rate of US dollar and British pound against Latvian Lat, and, because of lower capacities of Company's own plants, additional purchase of threads from other companies, which is significantly more expensive than production in the Company. Actual sales are EUR 8 million lower than planned because the output of the Company's plants was lower than expected.

According to decision made during the shareholders meeting on 11 May 2007, a part of net profit for 2006 was paid out as dividends to the Company's shareholders. The dividends amounted to 1 cent per share.

The board has developed a strategic plan for 2008 to 2010. After council approval in May 2008 the key financial ratios will be announced to shareholders in the annual meeting.

In the second half of 2007 the Company started to work on development of information systems, in order to increase the manufacturing and labour efficiency.

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 2007.



Andris Oskars Brutans
Chairman of the Board

31 March 2008

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The management of AS "Valmieras Stikla Skiedra" (the Company) is responsible for preparation of the financial statements.

The Financial Statements are prepared in accordance with the source documents and present fairly the state of affairs of the Company at the end of 31 December 2007 and the results of its operations and cash flows for the year ended 31 December 2007. The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements presented on pages 7 to 28. The management also confirms that applicable International Financial Reporting Standards as adopted by the European Union have been followed and that the financial statements have been prepared on a going concern basis.

The management of the Company is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. They are also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

On behalf of the management



Andris Oskars Brutāns
Chairman of the Board

31 March 2008

INDEPENDENT AUDITOR'S REPORT

Translation from Latvian

To the shareholders of AS "Valmieras Stikla Skiedra":

Report on the financial Statements

We have audited the accompanying financial statements (page 7 to 28) of AS "Valmieras Stikla Skiedra", which comprise the balance sheet as of 31 December 2007 and the profit and loss statement, the statement of changes in equity and the 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 the International Financial Reporting Standards as adopted by the European Union and the 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 the 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 2007, and its financial performance and its cash flows for the year then ended in accordance with the 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 2007, which is presented on page 4, and 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 2007.

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Inguna Staša
Board member
Sworn auditor
Certificate no. 145

Rīga, Latvia
31 March 2008


AS VALMIERAS STIKLA SKIEDRA

BALANCE SHEET
AS OF 31 DECEMBER 2007


	Notes	31.12.2007 EUR	31.12.2006 EUR
ASSETS			
Non-current assets			
Intangible assets			
Patents and licenses		76,673	100,243
Total intangible assets	4	76,673	100,243
Fixed assets			
Land and buildings	5	16,291,292	16,415,701
Equipment and machinery	5	40,517,172	39,914,114
Other fixed assets	5	726,715	895,905
Construction in progress	5	495,356	2,113,815
Advance payments for fixed assets		5,999	1,710,571
Total fixed assets		58,036,534	61,050,106
Total non-current assets		58,113,207	61,150,349
Current assets			
Inventory			
Raw materials	6	10,644,719	9,173,809
Work in progress		3,508,621	3,213,676
Finished goods	7	5,913,754	4,002,104
Advance payments for inventories		20,866	71,862
Total inventory		20,087,960	16,461,451
Accounts receivable			
Trade receivables	8	7,102,847	6,350,512
Other receivables	9	378,427	796,266
Deferred expenses	11	303,140	567,413
Total accounts receivable		7,784,414	7,714,191
Derivatives	20	570,880	-
Cash and cash equivalents	12	849,352	808,073
Total current assets		29,292,606	24,983,715
TOTAL ASSETS		87,405,813	86,134,064

The accompanying notes on pages 12 to 28 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 31 March 2008 by:



Andris Oskars Brutāns
Chairman of the Board



Jürgen Preiss-Daimler
Chairman of the Council

AS VALMIERAS STIKLA SKIEDRA

BALANCE SHEET
AS OF 31 DECEMBER 2007


	Notes	31.12.2007 EUR	31.12.2006 EUR
LIABILITIES & EQUITY			
Equity			
Share capital	13	34,011,197	34,011,197
Retained earnings:			
a) retained earnings		6,223,377	5,437,442
b) current year profit		91,565	1,024,013
Total equity		40,326,139	40,472,652
Liabilities			
Non-current liabilities			
Due to credit institutions	14	35,121,914	35,999,965
Finance lease	15	10,429	14,917
Deferred tax	29	962,036	977,351
Total non-current liabilities		36,094,379	36,992,233
Current liabilities			
Due to credit institutions	14	5,960,436	2,322,004
Finance lease	15	22,848	25,592
Advance payments from customers		388,905	84,649
Trade payables	16	3,685,716	4,877,370
Taxes and social security payments	17	407,124	414,823
Other accounts payable	18	433,488	483,513
Accrued liabilities	19	75,111	209,265
Deferred income		11,667	1,992
Derivatives	20	-	249,971
Total current liabilities		10,985,295	8,669,179
Total liabilities		47,079,674	45,661,412
TOTAL LIABILITIES & EQUITY		87,405,813	86,134,064

The accompanying notes on pages 12 to 28 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 31 March 2008 by:



 Andris Oskars Brutans
 Chairman of the Board



 Jürgen Preiss-Daimler
 Chairman of the Council

AS VALMIERAS STIKLA SKIEDRA

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 EUR	2006 EUR
Revenues	21	52,934,993	49,780,740
Changes in inventories		2,206,597	(1,383,721)
Work performed by the entity and capitalised		87,431	409,457
Other operating income	22	135,684	212,366
Raw materials and consumables	23	(26,776,737)	(24,483,873)
Personnel expenses	24	(9,578,116)	(8,578,991)
Depreciation and amortization	25	(7,753,213)	(4,952,529)
Other operating expenses	26	(9,782,147)	(9,860,226)
Profit from operations		1,474,492	1,143,223
Interest and similar income	27	832,071	2,518
Interest and similar expenses	28	(2,230,311)	(1,054,230)
Profit before taxes		76,252	91,511
Corporate income tax credit	29	15,314	932,503
Net profit		91,566	1,024,014
Basic and diluted earnings per share	30	0.0038	0.0428

The accompanying notes on pages 12 to 28 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 31 March 2008 by:


Andris Oskars Brutāns
Chairman of the Board


Jürgen Preiss-Daimler
Chairman of the Council

AS VALMIERAS STIKLA SKIEDRA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital EUR	Reserves EUR	Retained earnings EUR	Total EUR
As of 31 December 2005	34,011,197	333,710	5,545,878	39,890,785
Transfer to retained earnings	-	(333,710)	333,710	-
Dividends paid	-	-	(442,146)	(442,146)
Current year profit	-	-	1,024,014	1,024,014
As of 31 December 2006	34,011,197	-	6,461,456	40,472,653
Dividends paid	-	-	(238,079)	(238,079)
Current year profit	-	-	91,566	91,566
As of 31 December 2007	34,011,197	-	6,314,943	40,326,140

The accompanying notes on pages 12 to 28 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 31 March 2008 by:



Andris Oskars Brutāns
Chairman of the Board



Jürgen Preiss-Daimler
Chairman of the Council

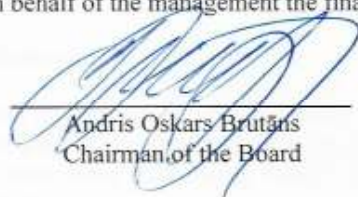
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 EUR	2006 EUR
OPERATING ACTIVITIES			
Profit before taxation		76,252	91,511
Adjustments:			
Depreciation and amortization	25	7,753,213	4,952,529
Depletion of precious metals	23	129,484	138,875
Profit or loss from disposal of fixed assets		(674)	6,557
Interest expense		1,974,092	352,542
Changes in fair value of derivatives		(820,852)	249,972
Changes in operating assets and liabilities:			
Inventory		(3,755,993)	1,742,814
Accounts receivable and other assets		(67,022)	(629,648)
Accounts payable and other liabilities		(1,171,100)	2,229,408
Corporate income tax paid		-	(75,420)
Cash provided by operating activities		4,117,400	9,059,140
INVESTING ACTIVITIES			
Purchase of fixed assets and intangible assets, advance payments		(4,808,258)	(34,256,310)
Proceeds from sale of fixed assets		235,088	92,384
Net cash used in investing activities		(4,573,170)	(34,163,926)
FINANCING ACTIVITIES			
Received loans from credit institution		-	32,352,370
Paid loans to credit institutions		-	(2,400,003)
Increase / (decrease) in credit line		2,760,380	(2,963,203)
Finance lease payments		(28,220)	(25,585)
Dividends paid		(238,079)	(442,146)
Interest expenses paid		(1,997,032)	(955,403)
Net cash provided by financing activities		497,049	25,566,030
Net increase in cash and cash equivalents		41,279	461,244
Cash and cash equivalents at the beginning of the year		808,073	346,829
Cash and cash equivalents at the end of the year	12	849,352	808,073

The accompanying notes on pages 12 to 28 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 31 March 2008 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 2007**

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. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

In the current year, the Company has adopted IFRS 7 *Financial Instruments: Disclosures* and the consequential amendments to IAS 1 *Presentation of Financial Statements* and four Interpretations issued by the International Financial Reporting Interpretations Committee:

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8 *Scope of IFRS 2*;
- IFRIC 9 *Reassessment of Embedded Derivatives*;
- IFRIC 10 *Interim Financial Reporting and Impairment*.

The adoption of the above Standards and Interpretations did not have material impact on the financial statements of the Company.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009) (not yet endorsed by EU);
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007);
- IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU);
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008) (not yet endorsed by EU); and
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008) (not yet endorsed by EU).

The Company anticipates that all of the adoption of the above Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

Basis of preparation

IFRSs as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's financial statements had they been endorsed by the EU at the balance sheet date.

The financial statements have been prepared under the historical cost convention as modified by the measurement of financial derivatives to fair value.

Foreign currencies

The functional currency of the Company is Latvian lat. The presentation currency of these financial statements is euro.

During the year, all foreign currency transactions of the Company have been recorded in functional currency based on the foreign currency exchange rates of the Bank of Latvia prevailing on the transaction date. Receivables and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the Bank of Latvia prevailing on the balance sheet date. Profits and losses from foreign currency transactions, including arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognized in the income statement as income or expenses for the period.

The results and financial position of the Company are translated into presentation currency based on the fixed rate of Latvian lat to euro of 1.42287, as determined by the Bank of Latvia.

Intangible assets

Intangible assets are stated at historical cost, less accumulated amortisation and impairment losses.

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 and impairment losses. 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 recognised as a 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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.

Interest income is recognized in the statement of profit and loss on an accrual basis of accounting using the effective interest rate method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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 different 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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.

Trade receivables

Trade receivables are measured at amortised cost using the effective interest method, less any impairment.

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.

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 disclosed in the notes to the financial statements.

Business and geographical segments

A business segment means a constituent part of the business participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

A geographical segment means a constituent part of the business participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

Use of estimates and critical accounting judgements

International Financial Reporting Standards as adopted by the EU 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 judgements 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 at the end of each annual reporting period. At the end of the current reporting period, the management determined that the useful life of certain items of equipment should be shortened due to its technical condition. The financial effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is to increase the depreciation expense in 2008 by EUR 629,464.
- the Company reviews property, plant and equipment and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
- the Company assesses recoverability of unused tax losses (see note 29).
- the Company assesses fair value of derivatives (see note 20). Techniques commonly used by market practitioners are applied using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

Emission rights

The Company is a participant of the EU CO₂ emission allowance trading scheme and receives an allocation of allowances for emission of greenhouse gas from the Latvian authorities. 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.

4. INTANGIBLE ASSETS

	Patents and licenses	Other intangible assets	Total
	EUR	EUR	EUR
HISTORICAL COST			
As of 31 December 2005	1,840,841	1,934,692	3,775,533
Additions	21,612	-	21,612
As of 31 December 2006	1,862,453	1,934,692	3,797,145
Additions	10,114	-	10,114
As of 31 December 2007	1,872,567	1,934,692	3,807,259
ACCUMULATED AMORTISATION			
As of 31 December 2005	1,731,187	1,579,998	3,311,185
Charge for the year	31,023	354,694	385,717
As of 31 December 2006	1,762,210	1,934,692	3,696,902
Charge for the year	33,684	-	33,684
As of 31 December 2007	1,795,894	1,934,692	3,730,586
NET BOOK VALUE			
As of 31 December 2006	100,243	-	100,243
As of 31 December 2007	76,673	-	76,673

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

5. FIXED ASSETS

	Land	Buildings	Equipment and machinery	Other fixed assets	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
HISTORICAL COST						
As of 31 December 2005	345,667	9,849,268	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	-	10,021,806	24,002,975	590,583	(34,615,364)	-
As of 31 December 2006	345,667	19,869,479	54,667,075	2,658,078	2,113,815	79,654,114
Additions	-	-	-	-	6,644,943	6,644,943
Disposals	-	(304,213)	(177,401)	(62,585)	-	(544,199)
Transfers	-	1,341,065	6,687,136	235,201	(8,263,402)	-
As of 31 December 2007	345,667	20,906,331	61,176,810	2,830,694	495,356	85,754,858
ACCUMULATED DEPRECIATION						
As of 31 December 2005	-	3,094,348	11,800,673	1,436,527	-	16,331,548
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	14,752,961	1,762,173	-	20,314,579
Charge for the year	-	1,265,112	6,050,135	404,282	-	7,719,529
Disposals	-	(103,851)	(143,458)	(62,476)	-	(309,785)
As of 31 December 2007	-	4,960,706	20,659,638	2,103,979	-	27,724,323
NET BOOK VALUE						
As of 31 December 2006	345,667	16,070,034	39,914,114	895,905	2,113,815	59,339,535
As of 31 December 2007	345,667	15,945,625	40,517,172	726,715	495,356	58,030,535

The registered cadastral value of property owned by the Company as at 31 December 2007 was 13,570,841 EUR (2006: 11,764,307).

The registered cadastral value of land owned by the Company as at 31 December 2007 was 108,352 EUR (2006: EUR 103,700).

The Company has pledged all non-current assets (fixed assets and intangible assets) with a total carrying amount as of 31 December 2007 of 58,107,208 EUR (2006: EUR 59,439,778) as a security for liabilities, see Note 14.

6. RAW MATERIALS

Raw materials include platinum plates that are used in the manufacturing process. The average technical depletion of these plates in 2007 was 2.35% (2006 – 2.85 %). The plates are used on average from 220 to 430 days before being sent for reprocessing. Reprocessed 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 2007 the carrying amount was 5,486,104 EUR (2006 – EUR 5,616,779). According to the metal prices quoted in London stock exchange as at 31 December 2007 the market price of the precious metals was EUR 25,318,831 (2006 – EUR 21,027,017).

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7. FINISHED GOODS

As of 31 December 2007 the Company has provided an allowance of EUR 107,600 to decrease the inventory value to net realizable value. As of 31 December 2007 the carrying amount of inventories stated at net realizable market value comprised EUR 2,045,264.

8. TRADE RECEIVABLES

	31.12.2007	31.12.2006
	EUR	EUR
P-D Glasseiden Oschatz GmbH (related party)	3,510,781	3,135,720
VITRULAN Textilglas GmbH (related party)	542,944	256,436
P-D aitec GmbH (related party)	39,352	31,951
Other trade receivables	3,019,889	2,960,719
Allowances for doubtful receivables	(10,119)	(34,314)
Total	<u>7,102,847</u>	<u>6,350,512</u>

9. OTHER RECEIVABLES

	31.12.2007	31.12.2006
	EUR	EUR
VAT overpayment (see Note 17)	265,857	573,999
VAT on unpaid invoices	72,831	105,357
Corporate income tax (see Note 17)	23,623	23,623
Real estate tax (see Note 17)	-	3,697
Other receivables	51,067	125,134
Allowance for doubtful receivables	(34,951)	(35,544)
Total	<u>378,427</u>	<u>796,266</u>

10. CHANGES IN ALLOWANCE FOR DOUBTFUL RECEIVABLES

	EUR
Allowance as of 31 December 2005	68,826
Decrease due to collection (see Note 22)	(2,618)
Written-off debts	(2,711)
Charged to statement of profit and loss	6,360
Allowance as of 31 December 2006	<u>69,857</u>
Decrease due to collection (see Note 22)	(2,254)
Written-off debts	(26,499)
Charged to statement of profit and loss	3,967
Allowance as of 31 December 2007	<u>45,071</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

11. DEFERRED EXPENSES

	2007	2006
	EUR	EUR
Insurance expenses	132,946	217,038
Platinum plate reprocessing expenses	112,700	305,882
Other deferred expenses	57,494	44,493
Total	303,140	567,413

12. CASH AND CASH EQUIVALENTS

	2007	2006
	EUR	EUR
Cash in bank	844,480	799,658
Cash on hand	4,872	8,415
Total	849,352	808,073

13. SHARE CAPITAL

The Company's registered share capital as of 31 December 2007 and 2006 was EUR 34,011,197.

The Company's paid-in share capital as of 31 December 2007 and 2006 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 EUR 1.423.

As of 31 December 2007 and 2006 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	2007	2006
P-D Glasseiden Oschatz GmbH	45.3%	45.3%
Vitrolan International GmbH	36.2%	-
P.D.P. Fiberglass Consulting Ltd	4.6%	4.6%
Braune Beatrix	2.6%	2.6%
VAS VSAA	2.4%	2.4%
Skandinaviska Enskilda Banken Ab	2.2%	3.3%
Nordea Bank Finland Plc	0.3%	4.0%
Vitrolan Textilglas GmbH	-	30.8%
Other	6.4%	7.0%
	100.0%	100.0%

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

	2007	2006
	EUR	EUR
Non-current part:		
Loan due within 2 to 5 years	14,048,780	11,414,635
Loan due after more than 5 years	21,073,134	24,585,330
Total non-current part	35,121,914	35,999,965
Current part:		
Credit line AS "Hansabanka"	5,082,386	2,322,004
Loan AS "Hansabanka"	878,050	-
Total current part	5,960,436	2,322,004
Total	41,082,350	38,321,969

On 2 April 2001 the Company signed a credit line agreement with AS Hansabanka to increase working capital. As of 31 December 2007 the credit line limit was EUR 6,000,000. The fixed interest 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 EUR 20,087,961 as at 31 December 2007 (2006: EUR 16,461,452).

On 6 June 2005 the Company signed a loan agreement in the amount of EUR 36,000,000. Maturity of the loan is 30 December 2018. The fixed interest rate is 0.9% per annum, variable – 3 month EURIBOR.

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 2007 of EUR 58,107,208 (2006: EUR 59,439,778).

15. FINANCE LEASE

On 31 December 2007 and 2006 the liabilities resulting from finance lease agreements were as follows:

	2007	2007	2006	2006
	EUR	EUR	EUR	EUR
	Minimum	Present value	Minimum	Present value
	lease	of minimum	lease	of minimum
	payments	lease	payments	lease
	payments	payments	payments	payments
Amounts payable under finance lease:				
Current	23,642	22,848	26,784	25,592
Non current	10,790	10,429	15,131	14,917
Total amounts payable under finance lease	34,432	33,277	41,915	40,509
Future financing charges	(1,155)	-	(1,406)	-
Present value of lease obligations	33,277	33,277	40,509	40,509

AS VALMIERAS STIKLA SKIEDRA

NOTES TO THE FINANCIAL STATEMENTS
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16. TRADE PAYABLES

	2007 EUR	2006 EUR
For services received	1,932,771	2,644,808
For goods received	1,443,445	2,024,562
For fixed assets	309,500	208,000
Total	<u>3,685,716</u>	<u>4,877,370</u>

17. TAXES AND SOCIAL SECURITY PAYMENTS

	2006		Calculated	Transfers	Returned from the state	Paid	2007	
	Over- payment	Liability					Over- payment	Liability
Natural resource tax	-	4,990	40,704	19,597*	-	21,649	-	4,448
Real estate tax	3,697	-	121,442	-	-	117,745	-	-
Social security payments	-	225,844	2,274,187	2,260,679	-	12,517	-	226,835
Personal income tax	-	183,649	1,585,498	-	-	1,593,646	-	175,501
Land tax	-	-	1,625	-	-	1,625	-	-
Enterprise risk duty	-	340	4,074	-	-	4,074	-	340
Value added tax	573,999	-	(3,159,743)	(2,260,679)	1,207,206	-	265,857	-
Corporate income tax	23,623	-	-	-	-	-	23,623	-
Total	<u>601,319</u>	<u>414,823</u>	<u>867,787</u>	<u>19,597</u>	<u>1,207,206</u>	<u>1,751,256</u>	<u>289,480</u>	<u>407,124</u>

* A tax credit of EUR 19,597 to be utilised for environmental activities within the Company.

18. OTHER ACCOUNTS PAYABLE

	2007 EUR	2006 EUR
Salary	426,785	477,450
Other	6,703	6,063
Total	<u>433,488</u>	<u>483,513</u>

19. ACCRUED LIABILITIES

	2007 EUR	2006 EUR
Accrual for vacations	62,874	58,377
Accrual for remuneration of the members of the Board and Council	12,237	149,259
Accruals for natural resource tax	-	1,629
Total	<u>75,111</u>	<u>209,265</u>

**NOTES TO THE FINANCIAL STATEMENTS
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20. DERIVATIVES

The Company has signed an interest rate swap contract to hedge the risks associated with variable interest rate fluctuations with AS 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 2007, total notional amount of interest rate swap contract is EUR 36,000,000, the fair value amounts to an asset of EUR 570,880 as at 31 December 2007 (2006: liability of EUR 249,971).

21. REVENUES

	2007	2006
	EUR	EUR
Export sales:		
European Union	37,622,802	34,872,549
North America	5,641,126	7,587,007
CIS	3,465,931	3,341,387
Local sales	3,124,793	1,689,241
Other countries	3,080,341	2,290,556
Total	52,934,993	49,780,740

	2007	2006
	EUR	EUR
Fibreglass textiles	30,334,773	30,280,565
Fibreglass threads	19,211,617	16,518,681
Other	3,388,603	2,981,494
Total	52,934,993	49,780,740

22. OTHER OPERATING INCOME

	2007	2006
	EUR	EUR
Sale of raw materials	67,337	96,674
Income from rent of fixed assets	21,702	14,557
Income from sale of fixed assets	-	22,258
Decrease in allowance for doubtful receivables (see Note 10)	2,254	2,618
Other	44,391	76,259
Total	135,684	212,366

AS VALMIERAS STIKLA SKIEDRA**NOTES TO THE FINANCIAL STATEMENTS
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23. RAW MATERIALS AND CONSUMABLES

	2007	2006
	EUR	EUR
Raw materials	19,668,687	19,555,987
Natural gas	3,044,939	1,638,181
Electricity	2,722,537	1,727,732
Ore processing costs	587,535	375,193
Depletion of ore	129,484	138,875
Other	623,555	1,047,905
Total	<u>26,776,737</u>	<u>24,483,873</u>

24. PERSONNEL EXPENSES

	2007	2006
	EUR	EUR
Salaries	6,837,929	5,912,472
Social security payments	1,629,271	1,498,140
Illness and vacation expenses	786,437	694,127
Insurance of employees	82,178	82,117
Accruals for bonuses of Board and Council	12,237	149,259
Other	230,064	242,876
Total	<u>9,578,116</u>	<u>8,578,991</u>

The average number of employees, including employees on term contracts and trainees, was 942 (2006: 956).

25. DEPRECIATION AND AMORTISATION

	2007	2006
	EUR	EUR
Fixed asset depreciation (see Note 5)	7,719,529	4,566,812
Intangible asset amortization (see Note 4)	33,684	385,717
Total	<u>7,753,213</u>	<u>4,952,529</u>

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26. OTHER OPERATING EXPENSES

	2007	2006
	EUR	EUR
Transportation	3,250,987	3,637,157
Sales commission	2,614,032	2,818,950
Service costs	1,309,893	1,093,783
Spare parts	809,227	613,081
Repair expenses	491,113	316,400
Insurance	276,527	220,629
Business trips	211,564	224,403
Property tax	123,068	89,940
Leasing	95,210	104,668
Labour safety and specific clothing	91,193	83,069
Communication	81,055	99,570
Selling expenses	68,160	63,510
Office expenses	59,391	80,825
Audit fees	30,501	30,501
Allowance for doubtful receivables (Note 10)	3,967	6,360
Loss on disposal and sale of fixed assets	1,750	-
Other	264,509	377,380
Total	9,782,147	9,860,226

27. INTEREST AND SIMILAR INCOME

	2007	2006
	EUR	EUR
Change in fair value of derivative	820,852	-
Interest income	11,219	2,518
Total	832,071	2,518

28. INTEREST AND SIMILAR EXPENSES

	2007	2006
	EUR	EUR
Interest expense	1,997,032	955,401
Less capitalized interest	(22,940)	(602,861)
Net loss on foreign exchange rate fluctuations	251,942	450,386
Change in value of derivative	-	249,972
Penalties paid	4,277	1,332
Total	2,230,311	1,054,230

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29. CORPORATE INCOME TAX**29 (a) Components of corporate income tax**

	2007 EUR	2006 EUR
Deferred tax credit	15,314	932,503
Total	15,314	932,503

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

	2007 EUR	2006 EUR
Profit before tax	55,949	91,511
Expected tax charge, applying current tax rate of 15%	(8,392)	(13,726)
Tax effect of non-taxable and non-deductible items	50,454	(97,080)
Tax credit received for new technological equipment	244,646	1,776,381
Not recognised deferred tax asset (tax losses)	(275,538)	(731,496)
Other	4,144	(1,576)
Corporate income tax credit	15,314	932,503

29 (c) Net deferred tax liabilities as of end of the year:

Calculation of deferred tax:

	2007		2006	
	Temporary difference	Tax effect 15 %	Temporary difference	Tax effect 15 %
Temporary difference on depreciation of fixed assets (liability)	22,196,817	3,329,522	15,984,724	2,397,708
Temporary difference on accruals (asset)	(99,743)	(14,961)	(207,635)	(31,145)
Tax loss carry forward	(15,683,496)	(2,352,525)	(9,261,416)	(1,389,212)
Total	6,413,578	962,036	6,515,673	977,351

As at 31 December 2007 total tax losses amount to EUR 22,394,238. These tax losses have arisen in 2006 and 2007 and can be carried forward for 5 years from the year of origination. Tax losses have been recognised to the extent they can be used to offset the reversal of existing taxable temporary differences (EUR 15,683,496).

30. EARNINGS PER SHARE

	2007 EUR	2006 EUR
Basic and diluted earnings per share		
Current year profit	91,566	1,024,014
Average number of shares outstanding	23,903,205	23,903,205
Basic and diluted earnings per share	0.0038	0.0428

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31. MANAGEMENT REMUNERATION

	2007	2006
	EUR	EUR
Members of the Council:		
Compensation (Tantiemes)	76,986	130,719
Social security payments	7,376	22,153
Members of the Board:		
Compensation	171,282	222,847
Social security payments	7,191	18,520
Other management:		
Salary	340,658	304,421
Social security payments	42,203	38,311
Total	645,696	736,971

In 2007 and 2006 the Company has not granted or received any loans from the members of Council, Board or management.

32. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

	31.12.2007	31.12.2007	31.12.2006	31.12.2006
	Accounts	Accounts	Accounts	Accounts
	receivable	payable	receivable	payable
	EUR	EUR	EUR	EUR
P-D Glasseiden Oschatz GmbH	3,510,781	543,827	3,135,720	361,003
VITRULAN Textilglas GmbH	542,944	1,217	256,436	3,712
P-D aitec GmbH	39,352	29,674	31,951	37,114
Total	4,093,077	574,718	3,424,107	401,829

Transactions with entities with significant influence over the Company	2007	2006
	EUR	EUR
Sales of goods	34,094,344	35,659,530
Acquisition of fixed assets	490,978	8,727,039
Purchase of goods	3,014,953	3,397,744
Sales commissions	2,614,032	2,818,950
Received services	18,687	2,024,980
Provided services	147,486	114,422

33. 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 cadastral value.

The total future rent payments (based on current cadastral value) are as follows:

	2007	2006
	EUR	EUR
Within 1 year	17,346	17,346
2 to 5 years	69,386	69,386
More than 5 years	242,848	260,194
Total	329,580	346,926

Long – term purchase agreements

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.

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 2008 and is subject to automatic extension annually.

Construction and fixed asset purchase agreements

The Company has signed agreements for renovation and purchase of melting equipment in 1-stage manufacturing plant in Valmiera, Cempu Street 13. Total contractual amount is EUR 1.57 million. Total planned project costs amount to EUR 10.5 million.

34. FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

Approximately 9% of total sales in 2007 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. 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.

35. SEGMENT REPORTING

The company has not disclosed any business segment reporting, since its products or group of products are not subject to risks and returns that are different from those of other business segments.

An analysis of the Company's sales by geography and main product groups is presented in Note 21.

36. 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 – 35,018, 2007 – 60,063 (total 126,479 quotas). Actual emission in 2005 amounted to 29,826 quotas, in 2006 - 28,415 quotas, and in 2007 – 32,485 quotas thus, there is a surplus for 2005 – 2007 in the amount of 35,753, of which 35,238 were sold.

* * * * *