



AS Valmieras Stikla Skiedra

*Annual report for the year 2007
prepared in accordance with Latvian statutory requirements
and 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

AS VALMIERAS STIKLA SKIEDRA

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 LVL	Net profit LVL
2005	32 688.4	1 237 428
2006	34 986.1	719 681
2007	37 202.9	64 353

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 27 million LVL.

In 2007 the Company continued investing in manufacturing equipment (total investments of LVL 4.67 million LVL), 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 LVL 1.454 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 LVL 5.6 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 0.7 santimes 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 Brutāns
Chairman of the Board

31 March 2008

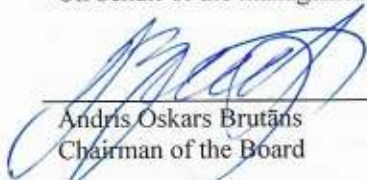
STATEMENT OF MANAGEMENT RESPONSIBILITIES

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.

Deloitte Audits Latvia SIA
License No. 43


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 LVL	31.12.2006 LVL
ASSETS			
Non-current assets			
Intangible assets			
Patents and licenses		53,886	70,451
Total intangible assets	4	53,886	70,451
Fixed assets			
Land and buildings	5	11,449,585	11,537,020
Equipment and machinery	5	28,475,631	28,051,799
Other fixed assets	5	510,738	629,646
Construction in progress	5	348,138	1,485,598
Advance payments for fixed assets		4,216	1,202,196
Total fixed assets		40,788,308	42,906,259
Total non-current assets		40,842,194	42,976,710
Current assets			
Inventory			
Raw materials	6	7,481,151	6,447,390
Work in progress		2,465,873	2,258,584
Finished goods	7	4,156,210	2,812,695
Advance payments for inventories		14,665	50,505
Total inventory		14,117,899	11,569,174
Accounts receivable			
Trade receivables	8	4,991,909	4,463,165
Other receivables	9	265,960	559,619
Deferred expenses	11	213,048	398,780
Total accounts receivable		5,470,917	5,421,564
Derivatives	20	401,217	-
Cash and cash equivalents	12	596,928	567,917
Total current assets		20,586,961	17,558,655
TOTAL ASSETS		61,429,155	60,535,365

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 LVL	31.12.2006 LVL
LIABILITIES & EQUITY			
Equity			
Share capital	13	23,903,205	23,903,205
Retained earnings:			
a) retained earnings		4,373,814	3,821,456
b) current year profit		64,353	719,681
Total equity		28,341,372	28,444,342
Liabilities			
Non-current liabilities			
Due to credit institutions	14	24,683,822	25,300,919
Finance lease	15	7,329	10,484
Deferred tax	29	676,123	686,886
Total non-current liabilities		25,367,274	25,998,289
Current liabilities			
Due to credit institutions	14	4,189,018	1,631,914
Finance lease	15	16,058	17,986
Advance payments from customers		273,324	59,492
Trade payables	16	2,590,336	3,427,835
Taxes and social security payments	17	286,128	291,539
Other accounts payable	18	304,657	339,815
Accrued liabilities	19	52,788	147,072
Deferred income		8,200	1,400
Derivatives	20	-	175,681
Total current liabilities		7,720,509	6,092,734
Total liabilities		33,087,783	32,091,023
TOTAL LIABILITIES & EQUITY		61,429,155	60,535,365

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 Brūtāns
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 LVL	2006 LVL
Revenues	21	37,202,925	34,986,103
Changes in inventories		1,550,805	(972,485)
Work performed by the entity and capitalised		61,447	287,768
Other operating income	22	95,359	149,252
Raw materials and consumables	23	(18,818,798)	(17,207,364)
Personnel expenses	24	(6,731,538)	(6,029,349)
Depreciation and amortization	25	(5,448,989)	(3,480,657)
Other operating expenses	26	(6,874,932)	(6,929,806)
Profit from operations		1,036,279	803,462
Interest and similar income	27	584,783	1,770
Interest and similar expenses	28	(1,567,472)	(740,918)
Profit before taxes		53,590	64,314
Corporate income tax credit	29	10,763	655,367
Net profit		64,353	719,681
Basic and diluted earnings per share	30	0.0027	0.0301

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 Brufāns
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 LVL	Reserves LVL	Retained earnings LVL	Total LVL
As of 31 December 2005	23,903,205	234,533	3,897,665	28,035,403
Transfer to retained earnings	-	(234,533)	234,533	-
Dividends paid	-	-	(310,742)	(310,742)
Current year profit	-	-	719,681	719,681
As of 31 December 2006	23,903,205	-	4,541,137	28,444,342
Dividends paid	-	-	(167,323)	(167,323)
Current year profit	-	-	64,353	64,353
As of 31 December 2007	23,903,205	-	4,438,167	28,341,372

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 Freiss-Daimler
Chairman of the Council

AS VALMIERAS STIKLA SKIEDRA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 LVL	2006 LVL
OPERATING ACTIVITIES			
Profit before taxation		53,590	64,314
Adjustments:			
Depreciation and amortization	25	5,448,989	3,480,657
Depletion of precious metals	23	91,002	97,602
Profit or loss from disposal of fixed assets		(474)	4,608
Interest expense		1,387,400	247,768
Changes in fair value of derivatives		(576,898)	175,681
Changes in operating assets and liabilities:			
Inventory		(2,639,727)	1,224,857
Accounts receivable and other assets		(47,103)	(442,519)
Accounts payable and other liabilities		(823,054)	1,566,837
Corporate income tax paid		-	(53,005)
Cash provided by operating activities		2,893,725	6,366,800
INVESTING ACTIVITIES			
Purchase of fixed assets and intangible assets, advance payments		(3,379,263)	(24,075,472)
Proceeds from sale of fixed assets		165,221	64,928
Net cash used in investing activities		(3,214,042)	(24,010,544)
FINANCING ACTIVITIES			
Received loans from credit institution		-	22,737,375
Paid loans to credit institutions		-	(1,686,732)
Increase / (decrease) in credit line		1,940,006	(2,082,551)
Finance lease payments		(19,833)	(17,981)
Dividends paid		(167,323)	(310,742)
Interest expenses paid		(1,403,522)	(671,461)
Net cash provided by financing activities		349,328	17,967,908
Net increase in cash and cash equivalents		29,011	324,164
Cash and cash equivalents at the beginning of the year		567,917	243,753
Cash and cash equivalents at the end of the year	12	596,928	567,917

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.

The accompanying financial statements are presented in the national currency of Latvia, the lat ("LVL") (functional currency).

Foreign currencies

Transactions denominated in foreign currencies are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date.

The applicable rates used for the principal currencies as of 31 December are as follows:

	2007	2006
EUR	0.702804	0.702804
GBP	0.963	1.048
RUR	0.0197	0.0203
SEK	0.0744	0.0778
USD	0.484	0.536

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 LVL 442,390.
- 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
	LVL	LVL	LVL
HISTORICAL COST			
As of 31 December 2005	1,293,751	1,359,709	2,653,460
Additions	15,188	-	15,188
As of 31 December 2006	1,308,939	1,359,709	2,668,648
Additions	7,108	-	7,108
As of 31 December 2007	1,316,047	1,359,709	2,675,756
ACCUMULATED AMORTISATION			
As of 31 December 2005	1,216,685	1,110,429	2,327,114
Charge for the year	21,803	249,280	271,083
As of 31 December 2006	1,238,488	1,359,709	2,598,197
Charge for the year	23,673	-	23,673
As of 31 December 2007	1,262,161	1,359,709	2,621,870
NET BOOK VALUE			
As of 31 December 2006	70,451	-	70,451
As of 31 December 2007	53,886	-	53,886

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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
	LVL	LVL	LVL	LVL	LVL	LVL
HISTORICAL COST						
As of 31 December 2005	242,936	6,922,105	22,000,156	1,482,439	2,134,933	32,782,569
Additions	-	-	-	-	23,678,481	23,678,481
Disposals	-	(1,121)	(449,304)	(29,395)	-	(479,820)
Transfers	-	7,043,365	16,869,387	415,064	(24,327,816)	-
As of 31 December 2006	242,936	13,964,349	38,420,239	1,868,108	1,485,598	55,981,230
Additions	-	-	-	-	4,670,092	4,670,092
Disposals	-	(213,802)	(124,678)	(43,985)	-	(382,465)
Transfers	-	942,506	4,699,746	165,300	(5,807,552)	-
As of 31 December 2007	242,936	14,693,053	42,995,307	1,989,423	348,138	60,268,857
ACCUMULATED DEPRECIATION						
As of 31 December 2005	-	2,174,720	8,293,560	1,009,597	-	11,477,877
Charge for the year	-	496,350	2,455,250	257,974	-	3,209,574
Disposals	-	(805)	(380,370)	(29,109)	-	(410,284)
As of 31 December 2006	-	2,670,265	10,368,440	1,238,462	-	14,277,167
Charge for the year	-	889,126	4,252,059	284,131	-	5,425,316
Disposals	-	(72,987)	(100,823)	(43,908)	-	(217,718)
As of 31 December 2007	-	3,486,404	14,519,676	1,478,685	-	19,484,765
NET BOOK VALUE						
As of 31 December 2006	242,936	11,294,084	28,051,799	629,646	1,485,598	41,704,063
As of 31 December 2007	242,936	11,206,649	28,475,631	510,738	348,138	40,784,092

The registered cadastral value of property owned by the Company as at 31 December 2007 was LVL 9,537,641 (2006: 8,268,002).

The registered cadastral value of land owned by the Company as at 31 December 2007 was LVL 76,150 (2006: LVL 72,881).

The Company has pledged all non-current assets (fixed assets and intangible assets) with a total carrying amount as of 31 December 2007 of LVL 40,837,978 (2006: LVL 41,774,514) 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 LVL 3,855,656 (2006 – LVL 3,947,495). According to the metal prices quoted in London stock exchange as at 31 December 2007 the market price of the precious metals was LVL 17,794,176 (2006 – LVL 14,777,872).

AS VALMIERAS STIKLA SKIEDRA**NOTES TO THE FINANCIAL STATEMENTS
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7. FINISHED GOODS

As of 31 December 2007 the Company has provided an allowance of LVL 75,622 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 LVL 1,437,420.

8. TRADE RECEIVABLES

	31.12.2007	31.12.2006
	LVL	LVL
P-D Glasseiden Oschatz GmbH (related party)	2,467,391	2,203,797
VITRULAN Textilglas GmbH (related party)	381,583	180,224
P-D aitec GmbH (related party)	27,657	22,455
Other trade receivables	2,122,390	2,080,805
Allowances for doubtful receivables	(7,112)	(24,116)
Total	4,991,909	4,463,165

9. OTHER RECEIVABLES

	31.12.2007	31.12.2006
	LVL	LVL
VAT overpayment (see Note 17)	186,846	403,409
VAT on unpaid invoices	51,186	74,045
Corporate income tax (see Note 17)	16,602	16,602
Real estate tax (see Note 17)	-	2,598
Other receivables	35,890	87,945
Allowance for doubtful receivables	(24,564)	(24,980)
Total	265,960	559,619

10. CHANGES IN ALLOWANCE FOR DOUBTFUL RECEIVABLES

	LVL
Allowance as of 31 December 2005	48,371
Decrease due to collection (see Note 22)	(1,840)
Written-off debts	(1,905)
Charged to statement of profit and loss	4,470
Allowance as of 31 December 2006	49,096
Decrease due to collection (see Note 22)	(1,584)
Written-off debts	(18,624)
Charged to statement of profit and loss	2,788
Allowance as of 31 December 2007	31,676

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

11. DEFERRED EXPENSES

	2007	2006
	LVL	LVL
Insurance expenses	93,435	152,535
Platinum plate reprocessing expenses	79,206	214,975
Other deferred expenses	40,407	31,270
Total	<u>213,048</u>	<u>398,780</u>

12. CASH AND CASH EQUIVALENTS

	2007	2006
	LVL	LVL
Cash in bank	593,504	562,003
Cash on hand	3,424	5,914
Total	<u>596,928</u>	<u>567,917</u>

13. SHARE CAPITAL

The Company's registered share capital as of 31 December 2007 and 2006 was LVL 23,903,205.

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 LVL 1.

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%
	<u>100.0%</u>	<u>100.0%</u>

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

14. DUE TO CREDIT INSTITUTIONS

	2007 LVL	2006 LVL
Non-current part:		
Loan due within 2 to 5 years	9,873,539	8,022,251
Loan due after more than 5 years	14,810,283	17,278,668
Total non-current part	24,683,822	25,300,919
Current part:		
Credit line AS "Hansabanka"	3,571,921	1,631,914
Loan AS "Hansabanka"	617,097	-
Total current part	4,189,018	1,631,914
Total	28,872,840	26,932,833

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 LVL 14,117,899 as at 31 December 2007 (2006: LVL 11,569,174).

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 LVL 40,837,978 (2006: LVL 41,774,514).

15. FINANCE LEASE

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

	2007 LVL	2007 LVL	2006 LVL	2006 LVL
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable under finance lease:				
Current	16,616	16,058	18,824	17,986
Non current	7,583	7,329	10,634	10,484
Total amounts payable under finance lease	24,199	23,387	29,458	28,470
Future financing charges	(812)	n/a	(988)	n/a
Present value of lease obligations	23,387	23,387	28,470	28,470

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

16. TRADE PAYABLES

	2007 LVL	2006 LVL
For services received	1,358,359	1,858,782
For goods received	1,014,459	1,422,870
For fixed assets	217,518	146,183
Total	2,590,336	3,427,835

17. TAXES AND SOCIAL SECURITY PAYMENTS

	2006		Calculated	Transfers	Returned from the state	Paid	2007	
	Over- payment	Liability					Over- payment	Liability
Natural resource tax	-	3,507	28,607	13,773*	-	15,215	-	3,126
Real estate tax	2,598	-	85,350	-	-	82,752	-	-
Social security payments	-	158,724	1,598,308	1,588,814	-	8,797	-	159,421
Personal income tax	-	129,069	1,114,294	-	-	1,120,021	-	123,342
Land tax	-	-	1,142	-	-	1,142	-	-
Enterprise risk duty	-	239	2,863	-	-	2,863	-	239
Value added tax	403,409	-	(2,220,680)	(1,588,814)	848,429	-	186,846	-
Corporate income tax	16,602	-	-	-	-	-	16,602	-
Total	422,609	291,539	609,884	13,773	848,429	1230,790	203,448	286,128

* A tax credit of LVL 13,773 to be utilised for environmental activities within the Company.

18. OTHER ACCOUNTS PAYABLE

	2007 LVL	2006 LVL
Salary	299,946	335,554
Other	4,711	4,261
Total	304,657	339,815

19. ACCRUED LIABILITIES

	2007 LVL	2006 LVL
Accrual for vacations	44,188	41,027
Accrual for remuneration of the members of the Board and Council	8,600	104,900
Accruals for natural resource tax	-	1,145
Total	52,788	147,072

**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 LVL 401,217 as at 31 December 2007 (2006: liability of LVL 175,681).

21. REVENUES

	2007	2006
	LVL	LVL
Export sales:		
European Union	26,441,456	24,508,567
North America	3,964,606	5,332,179
CIS	2,435,870	2,348,340
Local sales	2,196,117	1,187,205
Other countries	2,164,876	1,609,812
Total	<u>37,202,925</u>	<u>34,986,103</u>

	2007	2006
	LVL	LVL
Fibreglass textiles	21,319,400	21,281,302
Fibreglass threads	13,502,001	11,609,395
Other	2,381,524	2,095,406
Total	<u>37,202,925</u>	<u>34,986,103</u>

22. OTHER OPERATING INCOME

	2007	2006
	LVL	LVL
Sale of raw materials	47,325	67,943
Income from rent of fixed assets	15,252	10,231
Income from sale of fixed assets	-	15,643
Decrease in allowance for doubtful receivables (see Note 10)	1,584	1,840
Other	31,198	53,595
Total	<u>95,359</u>	<u>149,252</u>

AS VALMIERAS STIKLA SKIEDRA**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

23. RAW MATERIALS AND CONSUMABLES

	2007	2006
	LVL	LVL
Raw materials	13,823,232	13,744,026
Natural gas	2,139,995	1,151,320
Electricity	1,913,410	1,214,257
Ore processing costs	412,922	263,687
Depletion of ore	91,002	97,602
Other	438,237	736,472
Total	<u>18,818,798</u>	<u>17,207,364</u>

24. PERSONNEL EXPENSES

	2007	2006
	LVL	LVL
Salaries	4,805,724	4,155,309
Social security payments	1,145,058	1,052,899
Illness and vacation expenses	552,711	487,835
Insurance of employees	57,755	57,712
Accruals for bonuses of Board and Council	8,600	104,900
Other	161,690	170,694
Total	<u>6,731,538</u>	<u>6,029,349</u>

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

25. DEPRECIATION AND AMORTISATION

	2007	2006
	LVL	LVL
Fixed asset depreciation (see Note 5)	5,425,316	3,209,574
Intangible asset amortization (see Note 4)	23,673	271,083
Total	<u>5,448,989</u>	<u>3,480,657</u>

AS VALMIERAS STIKLA SKIEDRA

NOTES TO THE FINANCIAL STATEMENTS
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26. OTHER OPERATING EXPENSES

	2007	2006
	LVL	LVL
Transportation	2,284,807	2,556,210
Sales commission	1,837,152	1,981,169
Service costs	920,598	768,715
Spare parts	568,728	430,876
Repair expenses	345,156	222,367
Insurance	194,344	155,059
Business trips	148,688	157,711
Property tax	86,493	63,210
Leasing	66,914	73,561
Labour safety and specific clothing	64,091	58,381
Communication	56,966	69,978
Selling expenses	47,903	44,635
Office expenses	41,740	56,804
Audit fees	21,436	21,436
Allowance for doubtful receivables (Note 10)	2,788	4,470
Loss on disposal and sale of fixed assets	1,230	-
Other	185,898	265,224
Total	<u>6,874,932</u>	<u>6,929,806</u>

27. INTEREST AND SIMILAR INCOME

	2007	2006
	LVL	LVL
Change in fair value of derivative	576,898	-
Interest income	7,885	1,770
Total	<u>584,783</u>	<u>1,770</u>

28. INTEREST AND SIMILAR EXPENSES

	2007	2006
	LVL	LVL
Interest expense	1,403,522	671,461
Less capitalized interest	(16,122)	(423,693)
Net loss on foreign exchange rate fluctuations	177,066	316,533
Change in value of derivative	-	175,681
Penalties paid	3,006	936
Total	<u>1,567,472</u>	<u>740,918</u>

NOTES TO THE FINANCIAL STATEMENTS
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29. CORPORATE INCOME TAX**29 (a) Components of corporate income tax**

	2007 LVL	2006 LVL
Deferred tax credit	10,763	655,367
Total	10,763	655,367

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

	2007 LVL	2006 LVL
Profit before tax	39,321	64,314
Expected tax charge, applying current tax rate of 15%	(5,898)	(9,647)
Tax effect of non-taxable and non-deductible items	35,459	(68,228)
Tax credit received for new technological equipment	171,938	1,248,448
Not recognised deferred tax asset (tax losses)	(193,649)	(514,098)
Other	2,913	(1,108)
Corporate income tax credit	10,763	655,367

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)	15,600,012	2,340,002	11,234,128	1,685,119
Temporary difference on accruals (asset)	(70,100)	(10,515)	(145,927)	(21,889)
Tax loss carry forward	(11,022,424)	(1,653,364)	(6,508,960)	(976,344)
Total	4,507,488	676,123	4,579,241	686,886

As at 31 December 2007 total tax losses amount to LVL 15,738,760. 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 (LVL 11,022,424).

30. EARNINGS PER SHARE

	2007 LVL	2006 LVL
Basic and diluted earnings per share		
Current year profit	64,353	719,681
Average number of shares outstanding	23,903,205	23,903,205
Basic and diluted earnings per share	0.0027	0.0301

AS VALMIERAS STIKLA SKIEDRA

**NOTES TO THE FINANCIAL STATEMENTS
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31. MANAGEMENT REMUNERATION

	2007	2006
	LVL	LVL
Members of the Council:		
Compensation (Tantiemes)	54,106	91,870
Social security payments	5,184	15,569
Members of the Board:		
Compensation	120,378	156,618
Social security payments	5,054	13,016
Other management:		
Salary	239,416	213,948
Social security payments	29,660	26,925
Total	453,798	517,946

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
	LVL	LVL	LVL	LVL
P-D Glasseiden Oschatz GmbH	2,467,391	382,204	2,203,797	253,714
VITRULAN Textilglas GmbH	381,583	855	180,224	2,609
P-D aitec GmbH	27,657	20,855	22,455	26,084
Total	2,876,631	403,914	2,406,476	282,407

Transactions with entities with significant influence over the Company	2007	2006
	LVL	LVL
Sales of goods	23,961,641	25,061,660
Acquisition of fixed assets	345,061	6,133,398
Purchase of goods	2,118,921	2,387,948
Sales commissions	1,837,152	1,981,169
Received services	13,133	1,423,164
Provided services	103,654	80,416

**NOTES TO THE FINANCIAL STATEMENTS
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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
	LVL	LVL
Within 1 year	12,191	12,191
2 to 5 years	48,765	48,765
More than 5 years	170,674	182,865
Total	231,630	243,821

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 LVL 1.1 million. Total planned project costs amount to LVL 7.4 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.

* * * * *