



***AS Valmieras Stikla Skiedra***

*Annual report for the year 2011  
prepared in accordance with  
Latvian statutory requirements  
and Independent Auditor's Report*

*This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of financial statements takes precedence over this translation.*

**AS VALMIERAS STIKLA SKIEDRA**

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## AS VALMIERAS STIKLA SKIEDRA

### MANAGEMENT REPORT

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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 Friedhelm Schwender Dainis Šēnbergs Stefan Jugel
THE COUNCIL	Chairman of the Council: Jürgen Preiss-Daimler  Members of the Council: Hans Peter Cordts Guntis Strazds Reinhard Edwin Conradt Aivars Lošmanis
REPORTING YEAR	1 January 2011 - 31 December 2011
PRIOR REPORTING YEAR	1 January 2010 - 31 December 2010
AUDITORS AND THEIR ADDRESS	Deloitte Audits Latvia Ltd. License No. 43 4a Gredu Str. Riga, LV-1019, Latvia  Elīna Sedliņa Sworn Auditor Certificate no. 179

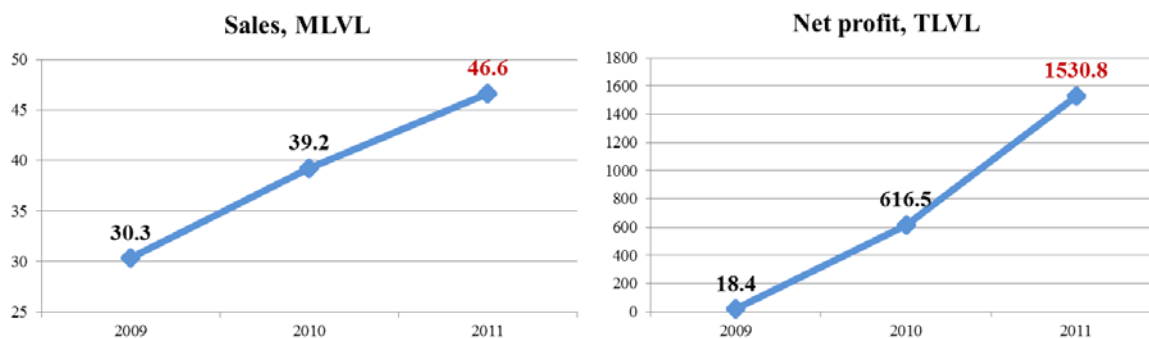
AS “Valmieras stikla šķiedra” (the Company) primary business is production and sale of fibreglass and fibreglass products. The products are sold in Europe, USA, Japan, Canada, Australia, Russia, Ukraine and the Baltic states, total in 32 countries. 76% of the total production is sold in the other countries of the European Union; total export comprise 96% of sales.

# AS VALMIERAS STIKLA SKIEDRA

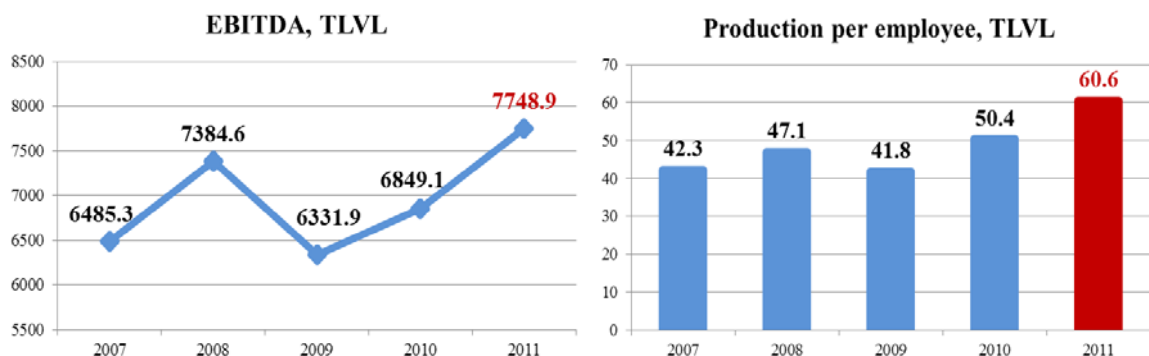
## MANAGEMENT REPORT

The operations of the Company are certified according to ISO 9001:2008 requirements. Compliance with these requirements is audited by the German Quality management system certification company DQS GmbH once per three years. On 5 March 2009 the Company received quality management system certificate which is valid until 4 March 2012.

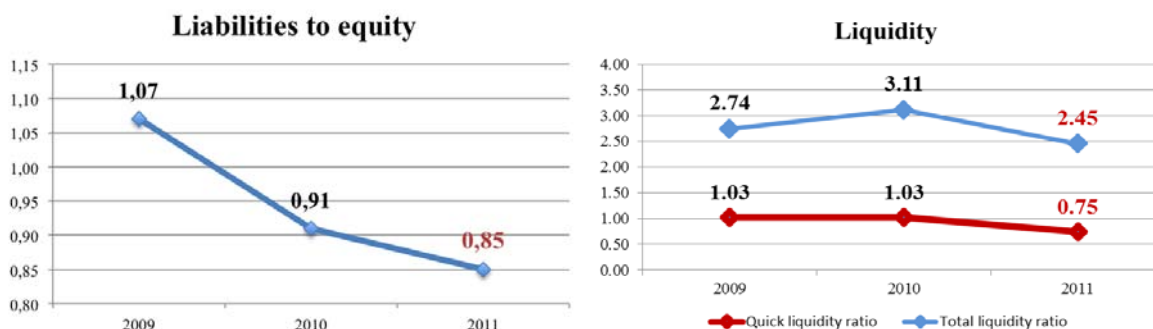
The results of 2011 were mainly affected by the commencement of ECR glass production project, which required temporary closure of the operation of one of the fiberglass melting furnaces. However, the Company has reached total sales of LVL 46.6 million for 2011, which is by LVL 1.8 million or 4% higher than planned. Net profit for the year amounts to LVL 1.53 million, which exceeds net profit of 2010 by LVL 0.91 million.



Operating profit (EBITDA) for the year was 7.75 million LVL, which is by 13.1 % higher than 2010, and amounts to 16.5% to total production (total of net sales, changes into inventories and other operating income). Profit before interest and tax (EBIT) in 2011 was 2.72 million LVL, which exceeds 2010 by 0.9 million LVL or 49.1 %. EBIT to total production amounted to 5.8%. Compared to 2010, average sales price in 2011 increased approximately by 7%, however, it is still by 1.6% lower than in 2008. Sales by geographic markets in 2011 have increased as follows: EU – 15%, USA and Canada –36%, Russia and Ukraine –24 %, in other countries (including India, Croatia, Switzerland) –67 %. The Company has entered new markets, particularly successfully – India. The number of clients has also substantially increased, particularly in the USA. Sales have increased for all production types, especially for nets and felts, which contribute 15% to sales, representing an increase of 16.5% in comparison to 2010. Compared to 2010, total production output per employee has increased by 20%, amounting to LVL 60.6 thousand.



As of 31 December 2011 liabilities compose 46.1% of the total balance sheet, operating profitability was 5.8%, while return on capital employed (ROCE) was 5.8%. Investments during 2011 amounted to 4.7 million LVL, mainly relating to development and extension of the production capacity required for execution of current orders. Investments were financed from Company's operating cash flows; at the same time, the amount of borrowed funds was also decreased. As a result, the liquidity ratios have decreased in comparison to 2010. The Company's objective is to return to 1.0 quick liquidity ratio.



Despite concerns regarding development of global economy, the management of the Company expects further improvement of the operational results of the Company in 2012, including increase in sales and profit.

The Board has developed investment plan for next 3 years and budget for 2012, which were approved on Company’s Board Member meeting on 9 December 2011.

Taking into consideration the market development trend and results of the Company during last months, it is expected that the sales of the Company could reach LVL 53.5 million in 2012. Based on management plans and budget, net profit for 2012 could reach LVL 2.65 million LVL.

On 13 January of 2012 the Company has signed an agreement with Investment and Development Agency of Latvia for financial support for investment project related to construction of new melting furnace. The Company also continues to carry out the investment project for ECR fiberglass production. It is expected to complete this project during first quarter of 2012. As a part of the project, the Company has registered trademark “HR” glass, “HR” representing High Resist, with heat resistance reaching 800<sup>0</sup>C.

The share price of AS “Valmieras stikla skiedra“ in Riga Stock Exchange has decreased by LVL 0.09 or 13.6%, i.e., from LVL 0.66 as of 31.12.2010 to LVL 0.57 as of 31.12.2011.

As of 31 December 2011 the number of employees of the Company was 808.

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 2011.

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Andris Oskars Brutāns  
 Chairman of the Board  
 26 March 2012

## **AS VALMIERAS STIKLA SKIEDRA**

### **STATEMENT OF MANAGEMENT RESPONSIBILITIES**

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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 financial position of the Company as of 31 December 2011 and the results of its operations and cash flows for the year then ended. The management confirms that appropriate 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 as presented on pages 8 to 32. The management also confirms that the requirements of Latvian law On Annual Reports have been complied with 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. The management is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

On behalf of the management

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Andris Oskars Brutāns  
Chairman of the Board

26 March 2012

## **INDEPENDENT AUDITORS' REPORT**

**To the shareholders of AS Valmieras Stikla Skiedra**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of AS Valmieras Stikla Skiedra set out on pages 8 to 32 of the accompanying annual report, which comprise the balance sheet as of 31 December 2011, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 give a true and fair view of the financial position of AS Valmieras Stikla Skiedra as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports

### **Report on Other Legal and Regulatory Requirements**

We have read the management report for 2011 set out on pages 4 and 5 of the accompanying annual report for 2011 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2011.

Deloitte Audits Latvia SIA  
Licence No. 43

Roberts Stugis  
Member of the Board

Riga, Latvia  
26 March 2012

Elina Sedlina  
Certified auditor of Latvia  
Certificate No. 179

AS VALMIERAS STIKLA SKIEDRA

**BALANCE SHEET  
AS OF 31 DECEMBER 2011**

	Notes	31.12.2011		31.12.2010	
		LVL	EUR	LVL	EUR
<b>ASSETS</b>					
<b>Non-current assets</b>					
<b>Intangible assets</b>					
Patents, licenses, trade marks and similar rights		9,418	13,401	12,298	17,498
Development of intangible assets		22,277	31,697	17,477	24,868
<b>Total intangible assets</b>	4	<b>31,695</b>	<b>45,098</b>	<b>29,775</b>	<b>42,366</b>
<b>Tangible fixed assets</b>					
Land and buildings	5	8,081,078	11,498,338	8,923,095	12,696,420
Equipment and machinery	5	23,848,599	33,933,499	24,110,289	34,305,851
Other fixed assets	5	244,431	347,794	253,029	360,028
Construction in progress	5	578,763	823,506	62,229	88,544
Advance payments for fixed assets		334,437	475,861	270,936	385,507
<b>Total tangible fixed assets</b>		<b>33,087,308</b>	<b>47,078,998</b>	<b>33,619,578</b>	<b>47,836,350</b>
<b>Total non-current assets</b>		<b>33,119,003</b>	<b>47,124,096</b>	<b>33,649,353</b>	<b>47,878,716</b>
<b>Current assets</b>					
<b>Inventory</b>					
Raw materials	6	10,477,519	14,908,166	8,818,192	12,547,157
Work in progress		1,269,216	1,805,933	1,414,966	2,013,315
Finished goods	7	4,536,750	6,455,214	4,481,924	6,377,203
Advance payments for inventories		14,861	21,145	24,822	35,318
<b>Total inventory</b>		<b>16,298,346</b>	<b>23,190,458</b>	<b>14,739,904</b>	<b>20,972,993</b>
<b>Accounts receivable</b>					
Trade receivables	8	5,996,120	8,531,710	6,559,155	9,332,837
Other receivables	9	582,766	829,201	303,802	432,271
Deferred expenses	10	311,846	443,717	225,313	320,592
<b>Total accounts receivable</b>		<b>6,890,732</b>	<b>9,804,628</b>	<b>7,088,270</b>	<b>10,085,700</b>
<b>Cash and cash equivalents</b>	11	<b>218,637</b>	<b>311,092</b>	<b>231,995</b>	<b>330,099</b>
<b>Total current assets</b>		<b>23,407,715</b>	<b>33,306,178</b>	<b>22,060,169</b>	<b>31,388,792</b>
<b>TOTAL ASSETS</b>		<b>56,526,718</b>	<b>80,430,274</b>	<b>55,709,522</b>	<b>79,267,508</b>

The accompanying notes on pages 13 to 32 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 26 March 2012 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 2011

	Notes	31.12.2011		31.12.2010	
		LVL	EUR	LVL	EUR
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	12	23,903,205	34,011,197	23,903,205	34,011,197
Retained earnings:					
a) retained earnings		5,053,565	7,190,575	4,621,147	6,575,300
b) current year profit		1,530,796	2,178,126	616,474	877,163
<b>Total equity</b>		<b>30,487,566</b>	<b>43,379,898</b>	<b>29,140,826</b>	<b>41,463,660</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Due to credit institutions	13	16,483,602	23,454,053	19,453,995	27,680,541
Finance lease	14	19,149	27,246	29,438	41,886
<b>Total non-current liabilities</b>		<b>16,502,751</b>	<b>23,481,299</b>	<b>19,483,433</b>	<b>27,722,427</b>
<b>Current liabilities</b>					
Due to credit institutions	13	5,448,763	7,752,891	2,995,361	4,262,015
Finance lease	14	14,362	20,436	19,873	28,277
Advance payments from customers		104,673	148,937	103,161	146,785
Trade payables	15	3,093,787	4,402,062	3,340,846	4,753,595
Taxes and social security contributions	16	472,253	671,955	295,022	419,778
Other accounts payable	17	245,485	349,294	258,118	367,269
Accrued liabilities	18	157,078	223,502	71,882	102,279
Deferred income		-	-	1,000	1,423
<b>Total current liabilities</b>		<b>9,536,401</b>	<b>13,569,077</b>	<b>7,085,263</b>	<b>10,081,421</b>
<b>Total liabilities</b>		<b>26,039,152</b>	<b>37,050,376</b>	<b>26,568,696</b>	<b>37,803,848</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>56,526,718</b>	<b>80,430,274</b>	<b>55,709,522</b>	<b>79,267,508</b>

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Jürgen Preiss-Daimler  
Chairman of the Council

**AS VALMIERAS STIKLA SKIEDRA**

**STATEMENT OF PROFIT AND LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011		2010	
		LVL	EUR	LVL	EUR
Sales	19	46,580,169	66,277,609	39,165,581	55,727,601
Change in inventories		(90,577)	(128,879)	(1,617,517)	(2,301,519)
Costs capitalised to non-current assets		55,141	78,458	8,646	12,302
Other operating income	20	372,258	529,675	943,479	1,342,450
Raw materials and consumables	21	(25,220,360)	(35,885,339)	(18,977,396)	(27,002,402)
Personnel expenses	22	(7,126,697)	(10,140,376)	(6,225,893)	(8,858,648)
Depreciation and amortization	23	(5,031,930)	(7,159,791)	(5,027,299)	(7,153,202)
Other operating expenses	24	(6,821,053)	(9,705,484)	(6,447,814)	(9,174,413)
<b>Profit from operations</b>		<b>2,716,951</b>	<b>3,865,873</b>	<b>1,821,787</b>	<b>2,592,169</b>
Interest and similar income	25	67,515	96,065	153,902	218,983
Interest and similar expenses	26	(1,253,670)	(1,783,812)	(1,359,215)	(1,933,989)
<b>Profit before tax</b>		<b>1,530,796</b>	<b>2,178,126</b>	<b>616,474</b>	<b>877,163</b>
Corporate income tax	27	-	-	-	-
<b>Net profit</b>		<b>1,530,796</b>	<b>2,178,126</b>	<b>616,474</b>	<b>877,163</b>
<b>Earnings per share</b>	28	<b>0.0640</b>	<b>0.0911</b>	<b>0.0258</b>	<b>0.0367</b>

*The accompanying notes on pages 13 to 32 are an integral part of these financial statements.*

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Andris Oskars Brutāns  
Chairman of the Board

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Jürgen Preiss-Daimler  
Chairman of the Council

**AS VALMIERAS STIKLA SKIEDRA**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Share capital		Retained earnings		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>31.12.2009</b>	<b>23,903,205</b>	<b>34,011,197</b>	<b>4,621,147</b>	<b>6,575,300</b>	<b>28,524,352</b>	<b>40,586,497</b>
Profit for 2010	-	-	616,474	877,163	616,474	877,163
<b>31.12.2010</b>	<b>23,903,205</b>	<b>34,011,197</b>	<b>5,237,621</b>	<b>7,452,463</b>	<b>29,140,826</b>	<b>41,463,660</b>
Dividends paid	-	-	(184,056)	(261,888)	(184,056)	(261,888)
Current year profit	-	-	1,530,796	2,178,126	1,530,796	2,178,126
<b>31.12.2011</b>	<b>23,903,205</b>	<b>34,011,197</b>	<b>6,584,361</b>	<b>9,368,701</b>	<b>30,487,566</b>	<b>43,379,898</b>

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Andris Oskars Brutāns  
Chairman of the Board

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Jürgen Preiss-Daimler  
Chairman of the Council

AS VALMIERAS STIKLA SKIEDRA

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011		2010	
		LVL	EUR	LVL	EUR
<b>OPERATING ACTIVITIES</b>					
Profit before tax		1,530,796	2,178,126	616,474	877,163
Adjustments:					
Depreciation and amortisation	23	5,031,930	7,159,791	5,027,299	7,153,202
Loss / (profit) from disposal and sales of fixed assets		171,412	243,897	(921)	(1,310)
Interest expenses	26	1,253,069	1,782,957	1,358,709	1,933,269
Interest income	25	(10,777)	(15,334)	(1,489)	(2,119)
<b>Changes in operating assets and liabilities:</b>					
Inventories		(1,558,442)	(2,217,463)	(1,285,009)	(1,828,403)
Accounts receivable and other assets		197,538	281,071	487,424	693,542
Accounts payable and other liabilities		1,876	2,669	1,501,356	2,136,237
Interest received		10,777	15,334	1,489	2,119
<b>Cash provided by operating activities</b>		<b>6,628,179</b>	<b>9,431,049</b>	<b>7,705,332</b>	<b>10,963,700</b>
<b>INVESTING ACTIVITIES</b>					
Purchase of fixed and intangible assets		(4,740,333)	(6,744,886)	(1,317,120)	(1,874,093)
Proceeds from sale of fixed assets		67,341	95,818	29,232	41,593
<b>Net cash used in investing activities</b>		<b>(4,672,992)</b>	<b>(6,649,069)</b>	<b>(1,287,888)</b>	<b>(1,832,500)</b>
<b>FINANCING ACTIVITIES</b>					
Loans paid		(2,970,393)	(4,226,488)	(2,970,393)	(4,226,489)
Change in credit line		2,453,402	3,490,877	(2,362,583)	(3,361,653)
Dividends paid		(184,056)	(261,888)	-	-
Finance lease paid		(15,800)	(22,481)	(20,706)	(29,462)
Interest paid		(1,251,698)	(1,781,006)	(1,357,923)	(1,932,150)
<b>Net cash used in financing activities</b>		<b>(1,968,545)</b>	<b>(2,800,987)</b>	<b>(6,711,605)</b>	<b>(9,549,754)</b>
Net decrease in cash and cash equivalents		(13,358)	(19,007)	(294,161)	(418,554)
Cash and cash equivalents at the beginning of the year		231,995	330,099	526,156	748,653
<b>Cash and cash equivalents at the end of the year</b>	11	<b>218,637</b>	<b>311,092</b>	<b>231,995</b>	<b>330,099</b>

The accompanying notes on pages 13 to 32 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 26 March 2012 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 2011**

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**1. GENERAL INFORMATION**

The Company is registered as a joint stock company in the Commercial Register in the Republic of Latvia. The principal activity of the Company is production of fibreglass and fibreglass products.

**2. STATEMENT OF COMPLIANCE**

The financial statements have been prepared in accordance with Latvian law On Annual Reports.

The financial statements have been prepared under the historical cost convention.

The functional currency of the Company is Latvian lat. These financial statements are also presented in euro.

**3. ACCOUNTING POLICIES**

*Foreign currencies*

Transactions denominated in foreign currencies are translated into lats 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. Exchange differences are recognized in the statement of profit and loss in the period in which they arise.

The applicable exchange rates to lat used for the main foreign currencies as of 31 December are as follows:

	<b>2011</b>	<b>2010</b>
EUR	0.702804	0.702804
GBP	0.840	0.824
RUB	0.0170	0.0176
SEK	0.0794	0.0748
USD	0.544	0.535

*Intangible assets*

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

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.

*Tangible fixed assets*

Tangible fixed assets are stated at historical cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition.

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 period in which they are incurred.

## AS VALMIERAS STIKLA SKIEDRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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Land is not depreciated. For other fixed assets depreciation is calculated based on the asset's historical cost. Depreciation is calculated using the straight-line method applying the following annual depreciation rates:

	Annual rate
Buildings	5-6.7%
Equipment and machinery	6.7-25%
Other fixed assets	10-40%

#### *Impairment of tangible and intangible assets*

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 exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. If it is not possible to estimate cash inflows for an individual asset, the recoverable amount is determined for the group of assets to which the asset belongs (cash generating unit).

#### *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.

If necessary, allowance is made for obsolete, slow moving and defective stock.

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents the total value of goods sold net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

#### *Taxation*

##### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rate that have been enacted or substantively enacted for the reporting year.

**NOTES TO THE FINANCIAL STATEMENTS  
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*Deferred tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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 mainly 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 can be estimated 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.

*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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

*Financial assets*

*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.

*Trade receivables*

Trade receivables are measured at cost, 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, discounted at the financial assets original effective interest rate.

**NOTES TO THE FINANCIAL STATEMENTS  
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***Financial liabilities***

*Loans and trade payables*

Loans and trade payables are initially measured at fair value, net of transaction costs.

Loans and trade payables are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

***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.

***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.

Foreign exchange contracts (forwards) are contracts for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Derivatives are stated at cost.

***Use of estimates and critical accounting judgments***

According to Latvian statutory requirements, 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 reporting period. Actual results could differ from those estimates.

The following are the critical judgments 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 in the next reporting periods:

- the Company reviews the estimated useful lives of tangible fixed assets at the end of each annual reporting period;

The management of the Company uses their judgment in estimating useful lives of tangible fixed assets and their assumptions may change, resulting in changes in depreciation charges.

- the Company reviews fixed assets for impairment and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable;

The Company calculates and records loss on impairment of fixed assets on the basis of an evaluation of their future use, planned liquidation or sale. The management does not believe that any other material adjustments are needed on 31 of December due to impairment of the Company's assets considering the planned production and sales levels.



**NOTES TO THE FINANCIAL STATEMENTS  
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- the Company assesses recoverability of unused tax losses (see note 27);

The Company has recognised a deferred tax asset from tax losses carry forward in the amount of LVL 2,778,444 (2010: LVL 2,734,958). The Company reviews the deferred tax asset at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to use the deferred tax asset.

- the Company assesses net realisable value of inventories and, if it is lower than cost, reduces the value of inventories.

**Emission rights**

The Company is a participant of the EU CO<sub>2</sub> emission allowance trading scheme and receives an allocation of allowances for emission of greenhouse gas from the Latvian authorities. The Company records emission allowances received at cost, if any. 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, licences, trade marks and other rights		Development of intangible assets		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
<b>HISTORICAL COST</b>						
<b>31.12.2009</b>	<b>147,253</b>	<b>209,523</b>	<b>17,477</b>	<b>24,868</b>	<b>164,730</b>	<b>234,391</b>
Additions	2,806	3,992	-	-	2,806	3,992
<b>31.12.2010</b>	<b>150,059</b>	<b>213,515</b>	<b>17,477</b>	<b>24,868</b>	<b>167,536</b>	<b>238,383</b>
Additions	2,346	3,339	4,800	6,829	7,146	10,168
<b>31.12.2011</b>	<b>152,405</b>	<b>216,854</b>	<b>22,277</b>	<b>31,697</b>	<b>174,682</b>	<b>248,551</b>
<b>ACCUMULATED AMORTISATION</b>						
<b>31.12.2009</b>	<b>125,804</b>	<b>179,004</b>	-	-	<b>125,804</b>	<b>179,004</b>
Charge for the year	11,957	17,013	-	-	11,957	17,013
<b>31.12.2010</b>	<b>137,761</b>	<b>196,017</b>	-	-	<b>137,761</b>	<b>196,017</b>
Charge for the year	5,226	7,436	-	-	5,226	7,436
<b>31.12.2011</b>	<b>142,987</b>	<b>203,453</b>	-	-	<b>142,987</b>	<b>203,453</b>
<b>NET BOOK VALUE</b>						
<b>31.12.2010</b>	<b>12,298</b>	<b>17,498</b>	<b>17,477</b>	<b>24,868</b>	<b>29,775</b>	<b>42,366</b>
<b>31.12.2011</b>	<b>9,418</b>	<b>13,401</b>	<b>22,277</b>	<b>31,697</b>	<b>31,695</b>	<b>45,098</b>

AS VALMIERAS STIKLA SKIEDRA

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5. TANGIBLE FIXED ASSETS

	Land	Buildings	Equipment and machinery	Other fixed assets	Construction in progress	Total
	LVL	LVL	LVL	LVL	LVL	LVL
HISTORICAL COST						
<b>As of 31 December 2009</b>	<b>242,936</b>	<b>14,748,326</b>	<b>43,716,935</b>	<b>2,065,070</b>	<b>6,910,297</b>	<b>67,683,564</b>
Additions	-	-	-	-	1,001,254	1,001,254
Disposals	-	(9,139)	(79,343)	(24,993)	-	(113,475)
Transfers	-	134,162	7,620,733	89,002	(7,843,897)	-
Sold	-	-	-	-	(5,425)	(5,425)
<b>As of 31 December 2010</b>	<b>242,936</b>	<b>14,873,349</b>	<b>51,258,325</b>	<b>2,129,079</b>	<b>62,229</b>	<b>68,565,918</b>
Additions	-	-	-	-	4,669,686	4,669,686
Disposals	-	-	(2,621,924)	(27,563)	-	(2,649,487)
Transfers	-	70,283	3,979,867	103,002	(4,153,152)	-
<b>As of 31 December 2011</b>	<b>242,936</b>	<b>14,943,632</b>	<b>52,616,268</b>	<b>2,204,518</b>	<b>578,763</b>	<b>70,586,117</b>
ACCUMULATED DEPRECIATION						
<b>As of 31 December 2009</b>	-	<b>5,294,966</b>	<b>23,219,843</b>	<b>1,777,713</b>	-	<b>30,292,522</b>
Charge for the year	-	907,236	3,984,832	123,274	-	5,015,342
Disposals	-	(9,012)	(56,639)	(24,937)	-	(90,588)
<b>As of 31 December 2010</b>	-	<b>6,193,190</b>	<b>27,148,036</b>	<b>1,876,050</b>	-	<b>35,217,276</b>
Charge for the year	-	912,300	4,002,804	111,600	-	5,026,704
Disposed replaced part	-	-	227,768	-	-	227,768
Disposals	-	-	(2,610,939)	(27,563)	-	(2,638,502)
<b>As of 31 December 2011</b>	-	<b>7,105,490</b>	<b>28,767,669</b>	<b>1,960,087</b>	-	<b>37,833,246</b>
NET BOOK VALUE						
<b>As of 31 December 2010</b>	<b>242,936</b>	<b>8,680,159</b>	<b>24,110,289</b>	<b>253,029</b>	<b>62,229</b>	<b>33,348,642</b>
<b>As of 31 December 2011</b>	<b>242,936</b>	<b>7,838,142</b>	<b>23,848,599</b>	<b>244,431</b>	<b>578,763</b>	<b>32,752,871</b>

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	Land	Buildings	Equipment and machinery	Other fixed assets	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
HISTORICAL COST						
<b>As of 31 December 2009</b>	<b>345,667</b>	<b>20,984,977</b>	<b>62,203,596</b>	<b>2,938,329</b>	<b>9,832,467</b>	<b>96,305,036</b>
Additions	-	-	-	-	1,424,656	1,424,656
Disposals	-	(13,004)	(112,895)	(35,561)	-	(161,460)
Transfers	-	190,895	10,843,326	126,639	(11,160,860)	-
Sold	-	-	-	-	(7,719)	(7,719)
<b>As of 31 December 2010</b>	<b>345,667</b>	<b>21,162,868</b>	<b>72,934,027</b>	<b>3,029,407</b>	<b>88,544</b>	<b>97,560,513</b>
Additions	-	-	-	-	6,644,365	6,644,365
Disposals	-	-	(3,730,661)	(39,219)	-	(3,769,880)
Transfers	-	100,004	5,662,840	146,559	(5,909,403)	-
<b>As of 31 December 2011</b>	<b>345,667</b>	<b>21,262,872</b>	<b>74,866,206</b>	<b>3,136,747</b>	<b>823,506</b>	<b>100,434,998</b>
ACCUMULATED DEPRECIATION						
<b>As of 31 December 2009</b>	-	<b>7,534,057</b>	<b>33,038,862</b>	<b>2,529,457</b>	-	<b>43,102,376</b>
Additions	-	1,290,881	5,669,904	175,404	-	7,136,189
Disposals	-	(12,823)	(80,590)	(35,482)	-	(128,895)
<b>As of 31 December 2010</b>	-	<b>8,812,115</b>	<b>38,628,176</b>	<b>2,669,379</b>	-	<b>50,109,670</b>
Additions	-	1,298,086	5,695,477	158,792	-	7,152,355
Disposed replaced part	-	-	324,085	-	-	324,085
Disposals	-	-	(3,715,031)	(39,219)	-	(3,754,250)
<b>As of 31 December 2011</b>	-	<b>10,110,201</b>	<b>40,932,707</b>	<b>2,788,952</b>	-	<b>53,831,860</b>
NET BOOK VALUE						
<b>As of 31 December 2010</b>	<b>345,667</b>	<b>12,350,753</b>	<b>34,305,851</b>	<b>360,028</b>	<b>88,544</b>	<b>47,450,843</b>
<b>As of 31 December 2011</b>	<b>345,667</b>	<b>11,152,671</b>	<b>33,933,499</b>	<b>347,795</b>	<b>823,506</b>	<b>46,603,138</b>

The registered cadastral value of buildings owned by the Company as of 31 December 2011 was LVL 3,779,533 ( EUR 5,377,791) (2010: LVL 3,779,533 (EUR 5,377,791)).

The registered cadastral value of land owned by the Company as at 31 December 2011 was LVL 945,747 ( EUR 1,345,677) (2010: LVL 945,747 (EUR 1,345,677)).

The Company has pledged all non-current assets (fixed assets and intangible assets) with a total carrying amount as of 31 December 2011 of LVL 32,784,566 (EUR 46,648,235) (2010: LVL 33,378,417 (EUR 47,493,209)), as a security for liabilities, see Note 13.

A number of fixed assets that have been fully depreciated are still used in operations. The total acquisition cost of these assets as at 31 December 2011 amounted to LVL 9,921,076 (EUR 14,116,419).

## AS VALMIERAS STIKLA SKIEDRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 6. RAW MATERIALS

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Precious metal glass melting plates*	6,201,898	8,824,505	5,297,332	7,537,424
Raw materials	4,275,621	6,083,661	3,570,860	5,080,876
Allowance for slow moving inventories	-	-	(50,000)	(71,143)
<b>Total</b>	<b>10,477,519</b>	<b>14,908,166</b>	<b>8,818,192</b>	<b>12,547,157</b>

\* The Company uses precious metal glass melting plates in the manufacturing process. The average technical depletion of these plates in 2011 was 4.53 % (2010: 3.37%). 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 2011 the carrying amount was LVL 6,301,030 (EUR 8,965,558) (2010: LVL 5,297,332 (EUR 7,537,424)). According to the metal prices quoted in London Stock Exchange as at 31 December 2011 the market price of the precious metals was LVL 11,056,097 ( EUR 15,731,409) (2010: LVL 13,769,866 (EUR 19,592,754)).

#### 7. FINISHED GOODS

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Finished goods	4,608,352	6,557,094	4,548,175	6,471,469
Allowance for excess of net realizable value over cost	(71,602)	(101,880)	(66,251)	(94,266)
<b>Total</b>	<b>4,536,750</b>	<b>6,455,214</b>	<b>4,481,924</b>	<b>6,377,203</b>

#### 8. TRADE RECEIVABLES

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
P-D Glasseiden Oschatz GmbH (related party)	2,158,263	3,070,932	3,444,019	4,900,398
VITRULAN Textilglas GmbH (related party)	436	620	80,620	114,712
P-D Tafneft Fiberglas Alabuga (related party)	91,282	129,883	18,233	25,943
P-D Refractories GmbH (related party)	7,797	11,094	-	-
Other trade receivables	3,800,457	5,407,563	3,064,680	4,360,647
Allowances for doubtful receivables	(62,115)	(88,382)	(48,397)	(68,863)
<b>Total</b>	<b>5,996,120</b>	<b>8,531,710</b>	<b>6,559,155</b>	<b>9,332,837</b>

AS VALMIERAS STIKLA SKIEDRA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

9. OTHER RECEIVABLES

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
VAT overpayment (see Note 16)	416,803	593,057	167,846	238,823
VAT on unpaid invoices	148,376	211,120	120,986	172,148
Other receivables	40,535	57,676	38,660	55,008
Allowance for doubtful receivables	(22,948)	(32,652)	(23,690)	(33,708)
<b>Total</b>	<b>582,766</b>	<b>829,201</b>	<b>303,802</b>	<b>432,271</b>

Change in allowance for doubtful receivables:

	LVL	EUR
<b>Allowance as of 31 December 2009</b>	<b>77,523</b>	<b>110,305</b>
Decrease due to collection (see Note 20)	(5,058)	(7,197)
Lost debts	(6,144)	(8,742)
The additional provisions (see Note 24)	5,766	8,204
<b>Allowance as of 31 December 2010</b>	<b>72,087</b>	<b>102,570</b>
Decrease due to collection (see Note 20)	(5,984)	(8,514)
The additional provisions (see Note 24)	18,961	26,979
<b>Allowance as of 31 December 2011</b>	<b>85,064</b>	<b>121,035</b>

10. DEFERRED EXPENSES

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Precious metal plates reprocessing expenses	212,895	302,922	129,519	184,289
Insurance expenses	57,759	82,184	53,946	76,758
Other deferred expenses	41,192	58,611	41,848	59,545
<b>Total</b>	<b>311,846</b>	<b>443,717</b>	<b>225,313</b>	<b>320,592</b>

11. CASH AND CASH EQUIVALENTS

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Cash in bank	218,637	311,092	231,995	330,099
<b>Total</b>	<b>218,637</b>	<b>311,092</b>	<b>231,995</b>	<b>330,099</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**


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**12. SHARE CAPITAL**

The Company's registered share capital as of 31 December 2011 and 2010 was LVL 23,903,205 (EUR 34,011,197).

The Company's paid-in share capital as of 31 December 2011 and 2010 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 (EUR 1.423).

As of 31 December 2011 and 2010 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	<b>2011</b>	<b>2010</b>
P-D Glasseiden Oschatz GmbH	26.0%	26.0%
Vitulan International GmbH	36.2%	36.2%
P-D Management Industries –Technologies GmbH	23.9%	23.9%
Braune Beatrix	2.6%	2.6%
VAS VSAA	2.4%	2.4%
Other	8.9%	8.9%
<b>Total</b>	<b><u>100.0%</u></b>	<b><u>100.0%</u></b>

**13. DUE TO CREDIT INSTITUTIONS**

	<b>31.12.2011</b>		<b>31.12.2010</b>	
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Non-current part:				
Loan due within 2 to 5 years	11,881,571	16,905,952	11,881,496	16,905,845
Loan due after more than 5 years	4,602,032	6,548,102	7,572,499	10,774,696
<b>Total non-current part</b>	<b><u>16,483,603</u></b>	<b><u>23,454,054</u></b>	<b><u>19,453,995</u></b>	<b><u>27,680,541</u></b>
Current part:				
Credit line	2,478,367	3,526,398	24,965	35,522
Loan	2,970,396	4,226,493	2,970,396	4,226,493
<b>Total current part</b>	<b><u>5,448,763</u></b>	<b><u>7,752,891</u></b>	<b><u>2,995,361</u></b>	<b><u>4,262,015</u></b>
<b>Total</b>	<b><u>21,932,366</u></b>	<b><u>31,206,945</u></b>	<b><u>22,449,356</u></b>	<b><u>31,942,556</u></b>

On 2 April 2001 the Company signed a credit line agreement with AS Swedbank to increase working capital. As of 31 December 2011 and 2010 the credit line limit was EUR 6,000,000 (LVL 4,216,824). The interest rate of the credit line is 3 month EURIBOR +1.4% for used amount and 0.5% for unused amount (2010: 3 month EURIBOR + 3.95% and 1% for unused amount). The maturity date of the credit line is 16 July 2013. As a security for the credit line, the Company has pledged inventories with the carrying amount of LVL 16,298,346 (EUR 23,190,457) (2010: LVL 14,739,904 (EUR 20,972,993)).

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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On 6 June 2005 the Company signed a loan agreement with AS Swedbank in the amount of EUR 36,000,000 (LVL 25,300,944). Maturity date of the loan is 30 December 2018. The fixed interest rate is 1.39% per annum, variable – 3 month EURIBOR. The Company has signed interest SWAP agreement for this loan (see note 31).

On 16 April 2008 the Company signed a loan agreement with AS Swedbank in the amount of EUR 5,000,000 (LVL 3,514,020) to finance the reconstruction of fiberglass furnace. Maturity date of the loan is 10 April 2016. The fixed interest rate is 1.34% per annum, variable – 3 month EURIBOR.

As of 31 December 2011 the amount of available and not yet withdrawn loan and credit line was EUR 2,473,602 ( LVL 1,738,457) (2010: EUR 5,964,478 (LVL 4,191,859)).

According to mortgage agreement No.05-04995-IN/3, the loans are secured by the assets of the Company with the carrying amount as of 31 December LVL 56,526,718 ( EUR 80,430,274) (2010: LVL 55,709,522 (EUR 79,267,508)).

#### 14. FINANCE LEASE

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Non-current	19,149	27,246	29,438	41,886
Current	14,362	20,436	19,873	28,277
<b>Total</b>	<b>33,511</b>	<b>47,682</b>	<b>49,311</b>	<b>70,163</b>

Net carrying amount of fixed assets purchased based on finance lease agreements amounts to LVL 121,452 (EUR 172,811).

#### 15. TRADE PAYABLES

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
For services received	1,647,211	2,343,770	1,777,020	2,528,471
For goods received	1,305,423	1,857,449	1,540,342	2,191,709
For fixed assets	141,153	200,843	23,484	33,415
<b>Total</b>	<b>3,093,787</b>	<b>4,402,062</b>	<b>3,340,846</b>	<b>4,753,595</b>

#### 16. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

AS VALMIERAS STIKLA SKIEDRA

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

LVL	31.12.2010		Calculated	Transfers	Returned from the state	Paid	31.12.2011	
	Over-payment	Liability					Over-payment	Liability
Natural resource tax	-	3,645	26,667	10,852*	-	15,367	-	4,093
Real estate tax	-	-	57,232	-	-	57,232	-	-
Social security contributions	-	165,800	905,092	1,672,922	-	44,731	-	35
Personal income tax	-	125,380	1,116,962	-	-	1,127,625	-	114,71
Enterprise risk duty	-	197	2,392	-	-	2,385	416,803	204
Value added tax	167,846	-	(2,171,930)	(1,672,922)	250,051	-	-	-
<b>Total</b>	<b>167,846</b>	<b>295,022</b>	<b>936,415</b>	<b>10,852</b>	<b>250,051</b>	<b>1,247,340</b>	<b>416,803</b>	<b>472,253</b>

EUR	31.12.2010		Calculated	Transfers	Returned from the state	Paid	31.12.2011	
	Over-payment	Liability					Over-payment	Liability
Natural resource tax	-	5,186	37,944	15,441*	-	21,865	-	5,824
Real estate tax	-	-	81,434	-	-	81,434	-	-
Social security contributions	-	235,912	2,710,701	2,380,353	-	63,647	-	502,613
Personal income tax	-	178,400	1,589,294	-	-	1,604,466	-	163,228
Enterprise risk duty	-	280	3,403	-	-	3,393	-	290
Value added tax	238,823	-	(3,090,377)	(2,380,353)	355,790	-	593,057	-
<b>Total</b>	<b>238,823</b>	<b>419,778</b>	<b>1,332,399</b>	<b>15,441</b>	<b>355,790</b>	<b>1,774,805</b>	<b>593,057</b>	<b>671,955</b>

\* Reduced in cooperation with SIA Latvijas Zaļais Punkts.

17. OTHER ACCOUNTS PAYABLE

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Salary	237,759	338,301	251,550	357,923
Other	7,726	10,993	6,568	9,346
<b>Total</b>	<b>245,485</b>	<b>349,294</b>	<b>258,118</b>	<b>367,269</b>

18. ACCRUED LIABILITIES

	31.12.2011		31.12.2010	
	LVL	EUR	LVL	EUR
Accrual for vacations	60,913	86,671	70,882	100,856
Accruals for remuneration of Board and Council members	96,165	136,831	1,000	1,423
<b>Total</b>	<b>157,078</b>	<b>223,502</b>	<b>71,882</b>	<b>102,279</b>

19. SALES



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Net sales by geographical area:

	2011		2010	
	LVL	EUR	LVL	EUR
Export sales:				
European Union	33,445,184	47,588,210	29,217,584	41,572,876
North America	5,134,760	7,306,105	3,761,974	5,352,807
CIS	3,879,077	5,519,429	3,152,320	4,485,347
Other countries	2,032,368	2,891,799	1,217,900	1,732,916
Local sales	2,088,780	2,972,066	1,815,803	2,583,655
<b>Total</b>	<b>46,580,169</b>	<b>66,277,609</b>	<b>39,165,581</b>	<b>55,727,601</b>

Net sales by production type:

	2011		2010	
	LVL	EUR	LVL	EUR
Fibreglass textiles	27,666,069	39,365,270	23,446,460	33,361,307
Fibreglass threads	16,187,893	23,033,296	13,701,096	19,494,903
Other	2,726,207	3,879,043	2,018,025	2,871,391
<b>Total</b>	<b>46,580,169</b>	<b>66,277,609</b>	<b>39,165,581</b>	<b>55,727,601</b>

**20. OTHER OPERATING INCOME**

	2011		2010	
	LVL	EUR	LVL	EUR
Sales of emission quotas	164,561	234,149	471,484	670,861
Sale of raw materials	153,749	218,765	312,421	444,535
Insurance indemnification	-	-	96,119	136,765
Income from rent of fixed assets	12,144	17,279	11,725	16,683
Profit from sale of fixed assets	-	-	6,348	9,032
Received bad debts (see Note 9)	5,984	8,515	5,058	7,197
Other	35,820	50,967	40,324	57,377
<b>Total</b>	<b>372,258</b>	<b>529,675</b>	<b>943,479</b>	<b>1,342,450</b>

**21. RAW MATERIALS AND CONSUMABLES**

	2011		2010	
	LVL	EUR	LVL	EUR
Raw materials	16,273,053	23,154,468	11,610,373	16,520,072
Natural gas	2,443,118	3,476,244	2,625,845	3,736,241
Electricity	3,311,040	4,711,185	2,541,388	3,616,069
Precious metal plates processing costs	299,554	426,227	265,493	377,763
Depletion of precious metal plates	207,448	295,172	173,587	246,992
Other	2,686,147	3,822,043	1,760,710	2,505,265
<b>Total</b>	<b>25,220,360</b>	<b>35,885,339</b>	<b>18,977,396</b>	<b>27,002,402</b>

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22. PERSONNEL EXPENSES

	2011		2010	
	LVL	EUR	LVL	EUR
Salaries	5,115,729	7,279,027	4,574,792	6,509,343
Social security contributions	1,287,724	1,832,266	1,142,943	1,626,261
Illness and vacation expenses	558,259	794,331	421,358	599,538
Accruals for remuneration of Board and Council	96,165	136,830	1,000	1,423
Insurance of employees	41,185	58,601	41,782	59,451
Other	27,635	39,321	44,018	62,632
<b>Total</b>	<b>7,126,697</b>	<b>10,140,376</b>	<b>6,225,893</b>	<b>8,858,648</b>

The average number of employees was 790 (2010: 774).

23. DEPRECIATION AND AMORTISATION

	2011		2010	
	LVL	EUR	LVL	EUR
Fixed asset depreciation (see Note 5)	5,026,704	7,152,355	5,015,342	7,136,189
Intangible asset amortization (see Note 4)	5,226	7,436	11,957	17,013
<b>Total</b>	<b>5,031,930</b>	<b>7,159,791</b>	<b>5,027,299</b>	<b>7,153,202</b>

24. OTHER OPERATING EXPENSES

	2011		2010	
	LVL	EUR	LVL	EUR
Transportation	2,943,200	4,187,796	2,505,535	3,565,055
Sales commission	1,213,541	1,726,713	1,402,950	1,996,218
Service costs	597,710	850,465	554,949	789,621
Spare parts	362,464	515,740	449,918	640,176
Repair expenses	433,998	617,523	414,039	589,124
Business trips	218,323	310,646	134,978	192,056
Insurance	141,159	200,851	130,743	186,031
Leasing	83,775	119,201	97,500	138,730
Research and development expenses	121,570	172,978	75,664	107,660
Property tax	57,232	81,434	57,139	81,302
Communication	60,191	85,644	54,771	77,932
Selling expenses	49,809	70,872	36,707	52,229
Office expenses	43,372	61,713	33,462	47,612
Labour safety and specific clothing	35,476	50,478	26,758	38,073
Audit fees	20,050	28,528	19,677	27,998
Allowance for doubtful receivables (Note 9)	18,960	26,978	5,766	8,204
Other	420,223	597,924	447,258	636,392
<b>Total</b>	<b>6,821,053</b>	<b>9,705,484</b>	<b>6,447,814</b>	<b>9,174,413</b>

25. INTEREST AND SIMILAR INCOME

	2011		2010	
	LVL	EUR	LVL	EUR

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Net gain on foreign exchange rate fluctuations	56,738	80,731	152,413	216,864
Interest income	10,777	15,334	1,489	2,119
<b>Total</b>	<b>67,515</b>	<b>96,065</b>	<b>153,902</b>	<b>218,983</b>

26. INTEREST AND SIMILAR EXPENSES

	2011		2010	
	LVL	EUR	LVL	EUR
Interest expense	1,253,069	1,782,957	1,365,852	1,943,433
Less capitalized interest	-	-	(7,143)	(10,164)
Penalties paid	601	855	506	720
<b>Total</b>	<b>1,253,670</b>	<b>1,783,812</b>	<b>1,359,215</b>	<b>1,933,989</b>

27. CORPORATE INCOME TAX

27 (a) Reconciliation of accounting profit to tax charge:

	2011		2010	
	LVL	EUR	LVL	EUR
Profit/ (loss) before tax	1,530,796	2,178,126	616,474	877,163
Expected tax charge, applying current tax rate of 15%	(229,619)	(326,718)	(92,471)	(131,574)
Tax effect of non-deductible items	(33,786)	(48,073)	(17,405)	(24,765)
Tax credit received for new technological equipment*	289,987	412,614	301,112	428,444
Not recognised deferred tax asset	(26,582)	(37,823)	2,573	3,660
Other	-	-	(193,809)	(275,765)
<b>Corporate income tax credit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* The tax base of new technological equipment purchased in 2011 is calculated by multiplying the acquisition cost with a coefficient of 1.5 (2009 - 2010: 1.5, 2008: 1.3, 2007: 1.4). Total amount of related tax credit not used as of 31 December 2011 is LVL 434,980 (EUR 618,921) (2010: LVL 451,668 (EUR 642,666)). If the equipment is disposed within 5 years from acquisition, taxable income in the year of disposal should be increased by the amount of credit previously recognized.

27 (b) Net deferred tax liabilities as of end of the year:

	31.12.2011		31.12.2010	
	Temporary difference	Tax effect 15 %	Temporary difference	Tax effect 15 %
	LVL	LVL	LVL	LVL
Temporary difference on depreciation of fixed assets (liability)	18,590,572	2,788,586	18,411,185	2,761,677
Temporary difference on accruals (asset)	(156,078)	(23,412)	(70,882)	(10,632)
Temporary difference on provisions for doubtful debts (asset)	-	-	(40,094)	(6,014)
Allowance for excess of inventories net realizable value over cost (asset)	(71,602)	(10,740)	(50,000)	(7,500)
Tax loss carry forward (asset) recognised	(18,522,959)	(2,778,443)	(18,233,055)	(2,734,958)
<b>Total</b>	<b>(160,067)</b>	<b>(24,009)*</b>	<b>17,154</b>	<b>2,573</b>

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	2011		2010	
	Temporary difference EUR	Tax effect 15 % EUR	Temporary difference EUR	Tax effect 15 % EUR
Temporary difference on depreciation of fixed assets (liability)	26,452,001	3,967,800	26,196,756	3,929,512
Temporary difference on accruals (asset)	(222,079)	(33,312)	(100,856)	(15,128)
Temporary difference on provisions for doubtful debts (asset)	-	-	(57,049)	(8,557)
Allowance for excess of inventories net realizable value over cost (asset)	(101,880)	(15,282)	(71,143)	(10,671)
Tax loss carry forward (asset) recognised	(26,355,796)	(3,953,369)	(25,943,300)	(3,891,495)
<b>Total</b>	<b>(227,754)</b>	<b>(34,163)*</b>	<b>24,408</b>	<b>3,661</b>

\* Deferred tax asset in amount of LVL 24,009 (EUR 34,163) is not recognised in financial statements as the amount is insignificant considering the financial statement as a whole.

Total tax losses carried forward as of 31 December 2011 amount to LVL 18,522,959 (EUR 26,355,796) (2010: LVL 18,233,055 (EUR 25,943,300)). These tax losses have been incurred in 2006 - 2011 and can be used as follows:

	Amount		Year of expiry
	LVL	EUR	
	9,560,039	13,602,710	2014
	5,960,789	8,481,439	2015
	3,002,131	4,271,647	Unlimited

28. EARNINGS PER SHARE

	2011		2010	
	LVL	EUR	LVL	EUR
Current year profit	1,530,796	2,178,126	616,474	877,163
Average number of shares outstanding	23,903,205	23,903,205	23,903,205	23,903,205
<b>Earnings per share</b>	<b>0.0640</b>	<b>0.0911</b>	<b>0.0258</b>	<b>0.0367</b>

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29. MANAGEMENT REMUNERATION

	2011		2010	
	LVL	EUR	LVL	EUR
Members of the Council:				
Compensation (Tantiemes)	60,824	86,545	26,000	36,995
Social security payments	5,383	7,659	4,941	7,030
Members of the Board:				
Compensation	199,460	283,806	70,000	99,601
Social security payments	19,473	27,708	6,706	9,542
Other management:				
Salary	264,710	376,648	213,464	303,732
Social security payments	60,703	86,373	47,551	67,659
<b>Total</b>	<b>610,553</b>	<b>868,739</b>	<b>368,662</b>	<b>524,559</b>

In 2011 and 2010 the Company has not granted or received any loans from the members of Council, Board or other management.

30. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

	31.12.2011 Accounts receivable LVL	31.12.2011 Accounts payable LVL	31.12.2010 Accounts receivable LVL	31.12.2010 Accounts payable LVL
P-D Glasseiden Oschatz GmbH	2,158,263	61,188	3,444,019	186,447
VITRULAN Textile Glass GmbH	-	13,823	80,620	47,630
VITRULAN Technical Textiles GmbH	-	5,016	-	-
VITRULAN International GmbH	436	471	-	-
P-D Refractories GmbH	7,797	-	-	-
P-D Preiss –Daimler Consulting	-	10,437	-	-
P-D Tatneft Fiberglas Alabuga	91,282	2,080	18,233	-
P-Dtec fil GmbH Technische Filamente	-	-	-	747
P-D Interglas Technologies Limited	-	-	-	906
P-D Management Industries – Technologies	-	127	-	1,537
<b>Total</b>	<b>2,257,778</b>	<b>93,142</b>	<b>3,542,872</b>	<b>237,267</b>

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	<b>31.12.2011</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2010</b>
	<b>Accounts</b>	<b>Accounts</b>	<b>Accounts</b>	<b>Accounts</b>
	<b>receivable</b>	<b>payable</b>	<b>receivable</b>	<b>payable</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
P-D Glasseiden Oschatz GmbH	3,070,932	87,063	4,900,398	265,290
VITRULAN Textile Glass GmbH	-	19,668	114,712	67,771
VITRULAN Technical Textiles GmbH	-	7,137	-	-
VITRULAN International GmbH	620	670	-	-
P-D Refractories GmbH	11,094	-	-	-
P-D Preiss –Daimler Consulting	-	14,851	-	-
P-Dtec fil GmbH Technische Filamente	-	-	-	1,063
P-D Tatneft Fiberglas Alabuga	129,883	2,960	25,943	-
P-D Interglas Technologies Limited	-	-	-	1,289
P-D Management Industries – Technologies	-	180	-	2,187
<b>Total</b>	<b>3,212,529</b>	<b>132,529</b>	<b>5,041,053</b>	<b>337,600</b>

**Transactions with companies which has significant influence over the Company, and their group companies**

	<b>2011</b>		<b>2010</b>	
	<b>LVL</b>	<b>EUR</b>	<b>LVL</b>	<b>EUR</b>
Sales of goods	25,756,545	36,648,262	23,418,520	33,321,552
Acquisition of fixed assets and construction in progress	2,182,6 39	3,105,615	42,522	60,503
Purchase of goods	1,174,356	1,670,958	1,405,247	1,999,486
Sales commissions	1,213,541	1,726,713	1,402,950	1,996,218
Received services	135,098	192,227	183,243	260,731
Provided services	38,707	55,075	39,770	56,587

**31. FINANCIAL RISK MANAGEMENT**

Financial assets mainly consist of trade receivables. Financial liabilities include loans and payables.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize its potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other Company's operating units.

**Foreign currency risk**

The Company operates internationally and is exposed to foreign currency risk mainly arising from US dollar fluctuations. Approximately 10% of total sales in 2011 resulted from contracts denominated in USD (2010: 8%).

The Company's currency risk in US dollars on 31 December may be specified as follows:

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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	31.12.2011	31.12.2010
Financial assets, USD	304,737	214,209
<b>Net balance sheet position, USD</b>	<b>304,737</b>	<b>214,209</b>
<b>Net balance sheet position, LVL</b>	<b>165,777</b>	<b>114,602</b>
<b>Net balance sheet position, EUR</b>	<b>235,879</b>	<b>163,064</b>

The above balance sheet position in US dollar is directly exposed and has direct sensitivity to a reasonably possible change in the US dollar exchange rate thus resulting in direct effect to Company's profit before tax.

The Bank of Latvia has stated a fixed currency exchange rate for lat against euro, i.e. 0.702804. Therefore, the Company's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

The Company is using derivative financial instruments to minimize the potential negative impact of foreign currency fluctuations.

#### *Credit risk*

The Company has significant exposure of credit risk with its foreign customers. The Company's policy is to ensure that sales of products are carried out with customers having appropriate credit history. 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.

As at 31 December 2011, the Company's credit risk exposure to a single customer – related company - amounted to 36.0% of the total trade receivables (31.12.2010: 52.5%). The Company's credit risk exposure to this customer amounts to LVL 2,158,263 (EUR 3,070,932) or 3.8 % to total assets (2010: LVL 3,444,019 (EUR 4,900,398) or 6.2% to total assets). In respect to credit risk arising from the other financial assets of the Company, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

#### *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through credit line. During the reporting period EUR 6 million credit line was available assigned by Swedbank AS according to the agreement concluded on April 2, 2001. As of 31 December 2011 the assigned credit line facility used was LVL 2,478,367 (EUR 3,526,398) (2010: LVL 24,965 (EUR 35,522)) (see Note 13). The Company's current and quick ratios as of 31 December 2011 were 2.45 and 0.75 respectively (as of 31 December 2010 – 3.11 and 1.03 respectively).

#### *Interest rate risk*

The Company has loans with variable EURIBOR interest rate from credit institutions. Therefore it is exposed to any changes in interest rates. The Company has signed an interest rate swap contract to minimize the risks associated with variable interest rate fluctuations. The interest swap involves the exchange of floating 3 month EURIBOR interest payments to fixed payments. The contract expires on 31 December 2018. As of 31 December 2011, total notional amount of interest rate swap contract is EUR 24,585,314 (LVL 17,278,657) (2010: EUR 28,097,515 (LVL 19,747,046)), the fair value amounts to a liability of EUR 2,417,724 (LVL 1,699,186) (2010: EUR 2,152,249 (LVL 1,512,609)). In the financial statements the derivative is stated at cost.

#### *Fair value of financial instruments*

## AS VALMIERAS STIKLA SKIEDRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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The non-current loans of the Company are with variable interest rate and their fair value approximates their carrying amount. Other financial liabilities and financial assets are with maturity of less than one year. In management's opinion, except for the interest swap described above, there are no material difference between fair value and carrying value of the financial assets and liabilities.

#### 32. COMMITMENTS

##### (a) Land lease

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, which amounts to LVL 916,014 (EUR 1,303,370) as of 31 December 2011 and 2010.

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

	2011		2010	
	LVL	EUR	LVL	EUR
Within 1 year	45,801	65,169	45,801	65,169
2 to 5 years	183,203	260,674	183,203	260,674
More than 5 years	412,206	586,516	458,007	651,685
<b>Total</b>	<b>641,210</b>	<b>912,359</b>	<b>687,011</b>	<b>977,528</b>

##### b) Investment and inventory purchase

Inventory, equipment and software purchases contracted but not yet fulfilled and therefore not recognized in the financial statements are as follows:

	2011		2010	
	LVL	EUR	LVL	EUR
Within 1 year	5,313,843	7,560,917	1,638,333	2,331,138
2 to 5 years	2,281,836	3,246,760	2,229,976	3,172,970
<b>Total</b>	<b>7,595,679</b>	<b>10,807,677</b>	<b>3,868,309</b>	<b>5,504,108</b>

##### c) Other operating lease

The Company as a lessee has entered in operating lease agreements for premises and equipment. Total lease expenses in 2011 were LVL 66,374 (EUR 94,442) (2010. LVL 78,979 (EUR 112,377)). Total future lease payments are as follows:

	2011		2010	
	LVL	EUR	LVL	EUR
Within 1 year	75,648	107,637	32,772	46,630
2 to 5 years	262,704	373,794	125,040	177,916
<b>Total</b>	<b>338,352</b>	<b>481,431</b>	<b>157,812</b>	<b>224,546</b>

#### 33. EMISSION RIGHTS

The Company has received a free of charge allowance for emission of CO<sub>2</sub>: 47,973 quotas for every year from 2008 up to 2012 (total 239,865 quotas). Actual emission in 2011 amounted to 26,020 quotas (2010: 28,292),



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during the year the Company has sold 18,156 quotas, purchased 5,869 quotas. Remaining emission balance for 2012 as of 31 December 2011 were 55,335 quotas.

\* \* \* \* \*

## Shares

JSC “Valmieras stikla šķiedra” shares are listed on NASDAQ OMX Riga Secondary market since February 24, 1997:

ISIN	LV0000100485
Ticker	VSS1R
Nominal value	1,00 LVL
Total number of securities	23 903 205
Number of listed securities	11 494 250
Indexes	B1000GI, B1000PI, B1300GI, B1300PI, OMXBGI, OMXBPI, OMXRGI

### JSC “Valmieras stikla šķiedra” share price development for the period 01.01.11 – 31.12.11



Currency: LVL

Open	0,688 LVL
Max	0,910 LVL
Min	0,500 LVL
Last	0,566 LVL
Average price	0,686 LVL
Change	-14,242 %
Trades	594
No of shares traded	290 609
Turnover	199 273,49 LVL
Capitalization on 31.12.2011	13 529 214 LVL

**JSC “Valmieras stikla šķiedra” share price development for the period 01.01.09 – 31.12.11**



**JSC “Valmieras stikla šķiedra” share price development in comparison with NASDAQ OMX Riga index for the period 01.01.09 – 31.12.11**



Indekss	01.01.2009	31.12.2011	+/-%
— OMXR	271,29	371,16	36,81 ↑
— VSS1R	0,29 LVL	0,57 LVL	95,17 ↑