



AS Valmieras stikla šķiedra

*Annual report for the year 2012
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 ŠKIEDRA

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AS VALMIERAS STIKLA ŠĶIEDRA

ANCILLARY INFORMATION

COMPANY NAME	Valmieras stikla šķiedra
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 (till 25.05.2012) Joeran Pfuhl (from 25.05.2012) 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 2012 - 31 December 2012
PRIOR REPORTING YEAR	1 January 2011 - 31 December 2011
AUDITORS AND THEIR ADDRESS	Deloitte Audits Latvia Ltd. License No. 43 4a Gredu Str. Riga, LV-1019 Elīna Sedliņa Sworn Auditor Certificate No. 179

General information

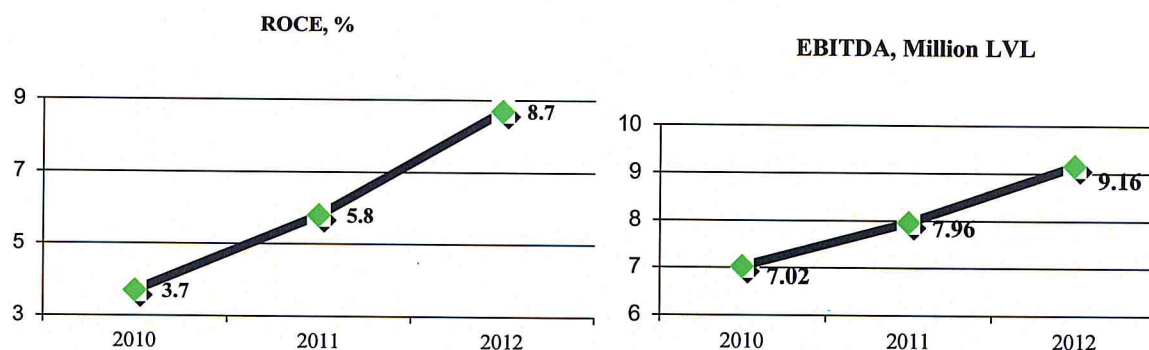
The principal activities of AS "Valmieras stikla šķiedra" (hereinafter referred to as "the Company") are research, development, manufacturing and sales of glass fibre. The Company specializes in manufacturing of three different types of glass fibre and related products (E-glass 600°C, HR-glass 800°C, SiO₂-glass 1000+°C), which can be used for further processing, thermal and technical insulation, as ready-made materials for mechanical engineering, construction etc.

The quality management system of the Company is certified according to ISO 9001:2008 requirements. The German Quality management system certification company DQS GmbH performs certification every three years and annual audits of compliance with these requirements. On 16 March 2012 the Company received quality management system certificate that is valid until 15 March 2015.

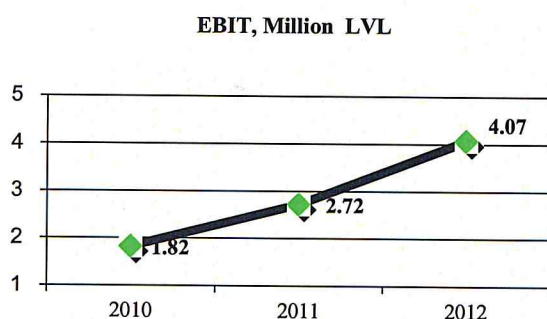
The products of the Company are sold in 36 countries. 73% of the production is sold in the European Union. In total, export amounts to 96% of the production. In comparison to 2011, the sales volumes in 2012 have increased in the geographic markets as follows: USA and Canada by 23%, Russia and Ukraine by 11%, other countries (inc. Swiss, Japan, India, Croatia etc.) by 28%. Sales volumes in the European Union were stable, showing growth by 3%.

From segment perspective, the growth of the sales volume has been recognized for the products with high added value: products with higher SiO₂ content, nettings and non-woven fabrics. These products were sold by 31% more than in 2011. For other product segments the sales volumes are stable.

As of 31 December 2012 there were 898 employees working for the Company. The average number of employees during 2012 was 856.



The average price of the products sold by the Company in 2012 has grown by 4.54% comparing to 2011, which has been driven mainly by manufacturing of high added value products.



In November 2012 the Company completed construction of new, already the third glass furnace, which will provide additional production capacity and enhance the quality of glass fibre. Total investment in construction amounted to LVL 4.57 Million (EUR 6.5 Million), which was financed by funding of Investment and Development Agency of Latvia in amount of LVL 976 Thousands (EUR 1.39 Millions) and the Company's own investment of LVL 3.6 Million (EUR 5.12 Millions).

In 2013 it is planned to invest LVL 7.1 Million (EUR 10.1 Million) in the development of the Company, including investments in new equipment, modernization of existing technological solutions and a new warehouse in order to increase the production capacity.

Considering the market development trends and the results of the Company, the management of AS "Valmieras stikla šķiedra" prognoses that sales for 2013 could reach LVL 63.13 Million (EUR 89.82 Million). Based on the management forecasts and budget, the net profit for 2013 could reach LVL 5.17 Million (EUR 7.36 Million).

Shares market

The shares of AS "Valmieras stikla šķiedra" are listed on NASDAQ OMX Riga Secondary market since 24 February 1997.

From 31 December 2011 till 31 December 2012 the share price of the Company has increased by LVL 0.284 (EUR 0.404) or 50.18%. The value of one share on 31 December 2012 was LVL 0.566 (EUR 0.805), while on 31 December 2012 the price had grown to LVL 0.850 (EUR 1.209), which is the maximum price of one share in 2012 (see diagram "The share price development of AS "Valmieras stikla šķiedra" in the period from 1 January 2012 to 31 December 2012").

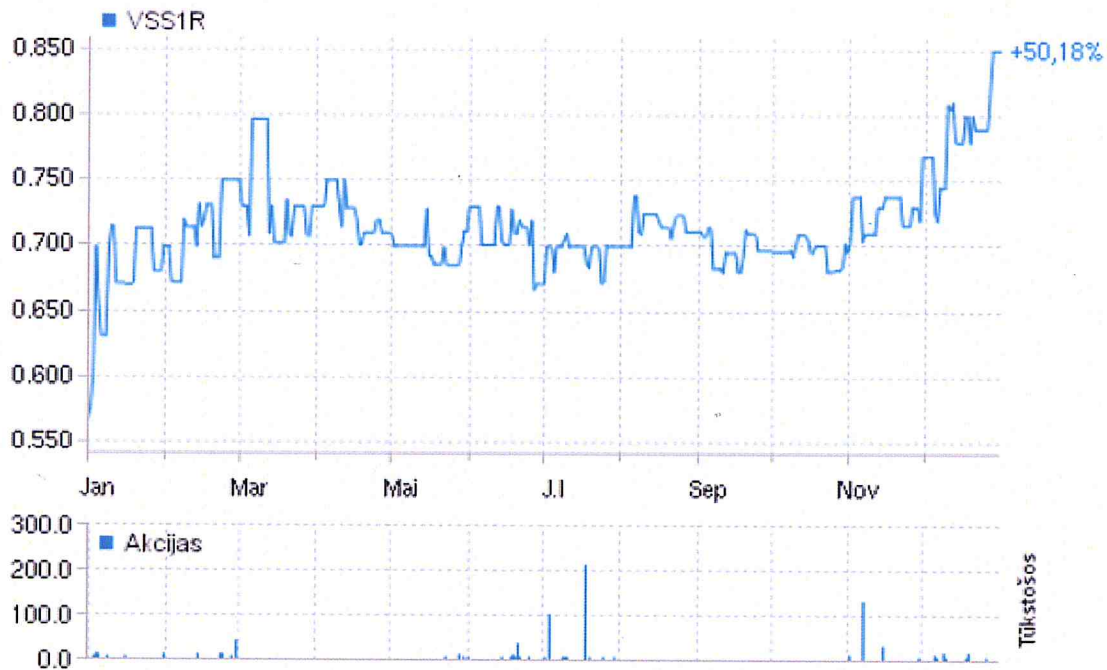
The total amount of traded shares is 857 thousand and turnover of JSC "Valmieras stikla šķiedra" shares has reached LVL 609.2 Thousand (EUR 866.8 Thousand).

AS VALMIERAS STIKLA ŠĶIEDRA

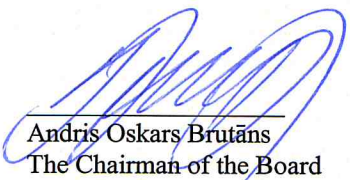
MANAGEMENT REPORT

The share price development of JSC „Valmieras stikla šķiedra” in the period from 1 January 2012 to 31 December 2012.

Information from: AS „NASDAQ OMX Riga”, home page www.nasdaqomxbaltic.com



There have been no events since the end of the reporting period to the date of signing of this report that could materially affect the results of the reporting period, require adjustments to the financial statements or should be disclosed in the notes.


Andris Oskars Brutāns
The Chairman of the Board
22 March 2013

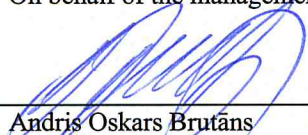
STATEMENT OF MANAGEMENT RESPONSIBILITIES

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 financial position of the Company as of 31 December 2012 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 9 to 33. 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



Andris Oskars Brutāns
Chairman of the Board

22 March 2013

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 9 to 33 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012, 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 2012, 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 2012 set out on pages 4 to 6 of the accompanying annual report for 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stūģis
Member of the Board

Riga, Latvia
22 March 2013

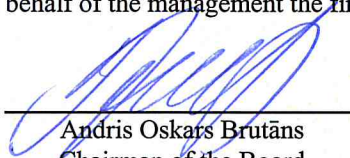

Elīna Sedliņa
Certified auditor of Latvia
Certificate No. 179


AS VALMIERAS STIKLA ŠĶIEDRA
**BALANCE SHEET
AS OF 31 DECEMBER 2012**

		31.12.2012		31.12.2011	
	Notes	LVL	EUR	LVL	EUR
				Reclassified	
ASSETS					
Non-current assets					
Intangible assets					
Patents, licenses, trade marks and similar rights		16,435	23,385	9,418	13,401
Development of intangible assets		110,296	156,937	22,277	31,697
Total intangible assets	4	126,731	180,322	31,695	45,098
Tangible fixed assets					
Land and buildings	5	8,229,441	11,709,439	8,081,078	11,498,338
Equipment and machinery	5	31,694,271	45,096,885	30,050,498	42,758,006
Other fixed assets	5	260,475	370,624	244,431	347,795
Construction in progress	5	1,432,167	2,037,790	578,763	823,506
Advance payments for fixed assets		732,817	1,042,704	334,436	475,859
Total tangible fixed assets		42,349,171	60,257,442	39,289,206	55,903,504
Total non-current assets		42,475,902	60,437,764	39,320,901	55,948,602
Current assets					
Inventory					
Raw materials	6	4,298,928	6,116,823	4,275,621	6,083,661
Work in progress		1,457,109	2,073,279	1,269,216	1,805,932
Finished goods	7	5,137,301	7,309,721	4,536,750	6,455,214
Advance payments for inventories		27,623	39,304	14,861	21,145
Total inventory		10,920,961	15,539,127	10,096,448	14,365,952
Accounts receivable					
Trade receivables	8	6,476,834	9,215,705	5,996,120	8,531,710
Other receivables	9	597,501	850,167	582,766	829,201
Deferred expenses	10	245,469	349,271	311,846	443,717
Total accounts receivable		7,319,804	10,415,143	6,890,732	9,804,628
Cash and cash equivalents	11	168,422	239,643	218,637	311,092
Total current assets		18,409,187	26,193,913	17,205,817	24,481,672
TOTAL ASSETS		60,885,089	86,631,677	56,526,718	80,430,274

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 22 March 2013 by:


Andris Oskars Brutāns
Chairman of the Board

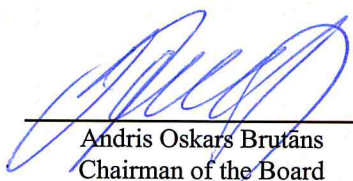

Jürgen Preiss-Daimler
Chairman of the Council

AS VALMIERAS STIKLA ŠKIEDRA
**BALANCE SHEET
AS OF 31 DECEMBER 2012**

		31.12.2012		31.12.2011	
	Notes	LVL	EUR	LVL	EUR
EQUITY AND LIABILITIES					
Equity					
Share capital	12	23,903,205	34,011,197	23,903,205	34,011,197
Retained earnings:					
a) retained earnings		5,962,877	8,484,410	5,053,565	7,190,575
b) current year profit		2,748,765	3,911,140	1,530,796	2,178,126
Total equity		32,614,847	46,406,747	30,487,566	43,379,898
Liabilities					
Non-current liabilities					
Due to credit institutions	13	14,093,090	20,052,660	16,483,602	23,454,053
Finance lease	14	77,374	110,093	19,149	27,246
Deferred tax	28 (b)	113,729	161,822	-	-
Deferred income	19	688,809	980,087	-	-
Total non-current liabilities		14,973,002	21,304,662	16,502,751	23,481,299
Current liabilities					
Due to credit institutions	13	6,830,917	9,719,519	5,448,763	7,752,891
Finance lease	14	38,810	55,222	14,362	20,436
Advance payments from customers		131,069	186,494	104,673	148,937
Trade payables	15	5,164,137	7,347,905	3,093,787	4,402,062
Taxes and social security contributions	16	428,531	609,745	472,253	671,955
Other accounts payable	17	350,907	499,296	245,485	349,294
Accrued liabilities	18	248,394	353,433	157,078	223,502
Deferred income	19	104,475	148,654	-	-
Total current liabilities		13,297,240	18,920,268	9,536,401	13,569,077
Total liabilities		28,270,242	40,224,930	26,039,152	37,050,376
TOTAL EQUITY AND LIABILITIES		60,885,089	86,631,677	56,526,718	80,430,274

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Andris Oskars Brutāns
Chairman of the Board


Jürgen Preiss-Daimler
Chairman of the Council


AS VALMIERAS STIKLA ŠKIEDRA


STATEMENT OF PROFIT AND LOSS
FOR THE YEAR 2012

	Notes	2012		2011	
		LVL	EUR	LVL Reclassified	EUR
Sales	20	49,907,073	71,011,367	46,580,169	66,277,609
Change in inventories		799,027	1,136,913	(90,577)	(128,879)
Costs capitalized to non-current assets		102,547	145,910	55,141	78,458
Other operating income	21	292,249	415,833	372,258	529,675
Raw materials and consumables	22	(26,114,233)	(37,157,206)	(25,012,912)	(35,590,167)
Personnel expenses	23	(8,345,330)	(11,874,334)	(7,126,697)	(10,140,376)
Depreciation and amortization	24	(5,092,176)	(7,245,513)	(5,239,378)	(7,454,963)
Other operating expenses	25	(7,482,197)	(10,646,207)	(6,821,053)	(9,705,484)
Profit from operations		4,066,960	5,786,763	2,716,951	3,865,873
Interest and similar income	26	1,639	2,332	67,515	96,065
Interest and similar expenses	27	(1,206,105)	(1,716,133)	(1,253,670)	(1,783,812)
Profit before tax		2,862,494	4,072,962	1,530,796	2,178,126
Corporate income tax	28	(113,729)	(161,822)	-	-
Net profit		2,748,765	3,911,140	1,530,796	2,178,126
Earnings per share	29	0.1150	0.1636	0.0640	0.0911

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Andris Oskars Brutāns
Chairman of the Board

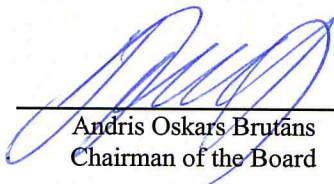

Jürgen Preiss-Daimler
Chairman of the Council

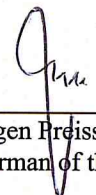
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR 2012

	Share capital		Retained earnings		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
31.12.2010	23,903,205	34,011,197	5,237,621	7,452,463	29,140,826	41,463,660
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
31.12.2011	23,903,205	34,011,197	6,584,361	9,368,701	30,487,566	43,379,898
Dividends paid	-	-	(621,484)	(884,291)	(621,484)	(884,291)
Current year profit	-	-	2,748,765	3,911,140	2,748,765	3,911,140
31.12.2012	23,903,205	34,011,197	8,711,642	12,395,550	32,614,847	46,406,747

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 22 March 2013 by:


 Andris Oskars Brutans
 Chairman of the Board



 Jürgen Preiss-Daimler
 Chairman of the Council

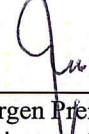
STATEMENT OF CASH FLOWS
FOR THE YEAR 2012

	Notes	2012		2011	
		LVL	EUR	LVL	EUR
OPERATING ACTIVITIES					
Profit before tax		2,862,494	4,072,962	1,530,796	2,178,126
Adjustments:					
Depreciation and amortization	24	5,092,176	7,245,513	5,239,378	7,454,963
Loss from disposal and sales of fixed assets		5,241	7,457	171,412	243,897
Interest expenses	27	1,063,951	1,513,866	1,253,069	1,782,957
Interest income	26	(1,639)	(2,332)	(10,777)	(15,334)
Changes in operating assets and liabilities:					
Inventories		(824,513)	(1,173,176)	(1,765,890)	(2,512,634)
Accounts receivable and other assets		(429,072)	(610,514)	197,538	281,071
Accounts payable and other liabilities		1,494,983	2,127,169	1,876	2,669
Interest received		1,639	2,332	10,777	15,334
Cash provided by operating activities		9,265,260	13,183,277	6,628,179	9,431,049
INVESTING ACTIVITIES					
Purchase of fixed and intangible assets		(7,375,300)	(10,494,106)	(4,740,333)	(6,744,887)
Proceeds from sale of fixed assets		-	-	67,341	95,818
Net cash used in investing activities		(7,375,300)	(10,494,106)	(4,672,992)	(6,649,069)
FINANCING ACTIVITIES					
Loans received		676,516	962,596	-	-
Loans paid		(3,020,643)	(4,297,988)	(2,970,393)	(4,226,488)
Change in credit line		1,335,768	1,900,627	2,453,402	3,490,877
Dividends paid		(621,484)	(884,292)	(184,056)	(261,888)
Finance lease paid		(36,797)	(52,357)	(15,800)	(22,481)
Received EU funding		793,284	1,128,741	-	-
Interest paid		(1,066,819)	(1,517,947)	(1,251,698)	(1,781,007)
Net cash used in financing activities		(1,940,175)	(2,760,620)	(1,968,545)	(2,800,987)
Net decrease in cash and cash equivalents		(50,215)	(71,449)	(13,358)	(19,007)
Cash and cash equivalents at the beginning of the year		218,637	311,092	231,995	330,099
Cash and cash equivalents at the end of the year	11	168,422	239,643	218,637	311,092

The accompanying notes on pages 14 to 33 are an integral part of these financial statements.

On behalf of the management the financial statements were signed on 22 March 2013 by:


Andris Oskars Brutāns
Chairman of the Board


Jürgen Preiss-Daimler
Chairman of the Council

NOTES OF THE FINANCIAL STATEMENTS FOR THE YEAR 2012

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:

	2012	2011
EUR	0.702804	0.702804
GBP	0.857	0.840
RUB	0.0174	0.0170
SEK	0.0805	0.0794
USD	0.531	0.544

Intangible assets

Intangible assets represents mainly computer software licences and the related implementation costs. Intangible assets are stated at historical cost, less accumulated amortization and impairment loss. Amortization is calculated using the straight-line method over their useful lives of intangible assets (3-10 years).

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.

Starting from 2012, precious metal plates, which are used in manufacturing, are classified as fixed assets and depreciated using units of production method based on actual intensity of use. For other fixed assets 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%

Land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012**

item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss statement in the period when they are incurred.

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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. 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 labor 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 for the reporting year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012**

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, and taking into consideration employers' social security contributions.

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.

If the Company is a lessee in a finance lease arrangement, it recognises in the statement of financial position the assets as an item of property, plant and equipment and a lease liability measured as the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge so as to achieve a constant interest rate on the balance of liability outstanding. The interest element of the lease payment is charged to the profit or loss over the lease period. The item of property, plant and equipment acquired under a finance lease is depreciated over the shorter of the useful life of the asset and the lease term, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

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 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 or receivables 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.

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. 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.

Grants of government and international organizations

Grants of government and international organizations, which are received for acquisition, development or construction of non-current assets, are initially recognized as deferred income and are recognised as income on a proportionally to the annual depreciation expenses of the asset.

Grants of government and international organizations, which relate to compensation of costs included in income statement, are recognized as income in the period when amount of income can be measured reliably and it is probable that economic benefits related to the transaction will flow to the Company.

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.

**NOTES TO THE FINANCIAL STATEMENTS
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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 2012 due to impairment of the Company's assets considering the planned production and sales levels.
- the Company assesses recoverability of unused tax losses (see note 28). The Company has recognised a deferred tax asset from tax losses carry forward in the amount of LVL 3,099,288 (2011: LVL 2,778,443). 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 during the period when tax loss can be carried forward 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.

Reclassification

During the reporting year the Company changed the presentation of precious metal plates, which are used in production. The plates, which were previously presented as inventories, have been reclassified to fixed assets. The comparative amounts of 2011 have been restated to correspond with the current year presentation:

	Previously reported LVL	Reclassification LVL	Adjusted balance LVL
Balance sheet 31.12.2011			
Non-current assets			
Equipment and machinery	23,848,599	6,201,899	30,050,498
Current assets			
Raw materials	10,477,520	(6,201,899)	4,275,621
Statement of profit and loss for 2011			
Raw materials and consumables	(25,220,360)	207,448	(25,012,912)
Depreciation and amortization	(5,031,930)	(207,448)	(5,239,378)
	Previously reported EUR	Reclassification EUR	Adjusted balance EUR
Balance sheet 31.12.2011			
Non-current assets			
Equipment and machinery	33,933,499	8,824,507	42,758,006
Current assets			
Raw materials	14,908,168	(8,824,507)	6,083,661
Statement of profit and loss for 2011			
Raw materials and consumables	(35,885,339)	295,172	(35,590,167)
Depreciation and amortization	(7,159,791)	(295,172)	(7,454,963)

The change in presentation did not have any impact on the total profit for 2011.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012

4. INTANGIBLE ASSETS

	Patents, licenses, trade marks and other rights		Development of intangible assets		Total	
	LVL	EUR	LVL	EUR	LVL	EUR
HISTORICAL COST						
31.12.20010	150,059	213,515	17,477	24,868	167,536	238,383
Additions	2,346	3,339	4,800	6,829	7,146	10,168
31.12.2011	152,405	216,854	22,277	31,697	174,682	248,551
Additions	11,320	16,107	88,019	125,240	99,339	141,347
31.12.2012	163,725	232,961	110,296	156,937	274,021	389,898
ACCUMULATED AMORTISATION						
31.12.2010	137,761	196,017	-	-	137,761	196,017
Charge for the year	5,226	7,436	-	-	5,226	7,436
31.12.2011	142,987	203,453	-	-	142,987	203,453
Charge for the year	4,303	6,123	-	-	4,303	6,123
31.12.2012	147,290	209,576	-	-	147,290	209,576
NET CARRYING AMOUNT						
31.12.2011	9,418	13,401	22,277	31,697	31,695	45,098
31.12.2012	16,435	23,385	110,296	156,937	126,731	180,322

AS VALMIERAS STIKLA ŠKIEDRA
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012**
5. TANGIBLE 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 2010						
(Reclassified)	242,936	14,873,349	57,559,355	2,129,079	62,229	74,866,948
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)	-
As of 31 December 2011	242,936	14,943,632	58,917,298	2,204,518	578,763	76,887,147
Additions	-	-	-	-	7,754,698	7,754,698
Disposals	-	(116,867)	(2,250,091)	(34,563)	-	(2,401,521)
Transfers	95	1,032,431	5,741,217	127,551	(6,901,294)	-
As of 31 December 2012	243,031	15,859,196	62,408,424	2,297,506	1,432,167	82,240,324
ACCUMULATED DEPRECIATION						
As of 31 December 2010						
(Reclassified)	-	6,193,190	27,049,719	1,876,050	-	35,108,959
Charge for the year	-	912,300	4,210,252	111,600	-	5,234,152
Disposed replaced part	-	-	227,768	-	-	227,768
Disposals	-	-	(2,610,939)	(27,563)	-	(2,638,502)
As of 31 December 2011	-	7,105,490	28,866,800	1,960,087	-	37,932,377
Charge for the year	-	884,163	4,092,319	111,391	-	5,087,873
Disposals	-	(116,867)	(2,244,966)	(34,447)	-	(2,396,280)
As of 31 December 2012	-	7,872,786	30,714,153	2,037,031	-	40,623,970
NET CARRYING AMOUNT						
As of 31 December 2011	242,936	7,838,142	30,050,498	244,431	578,763	38,954,770
As of 31 December 2012	243,031	7,986,410	31,694,271	260,475	1,432,167	41,616,354

AS VALMIERAS STIKLA ŠKIEDRA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2012

	Land	Buildings	Equipment and machinery	Other fixed assets	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
HISTORICAL COST						
As of 31 December 2010						
(Reclassified)	345,667	21,162,868	81,899,584	3,029,407	88,544	106,526,070
Additions	-	-	-	-	6,644,365	6,644,365
Disposals	-	-	(3,730,662)	(39,219)	-	(3,769,881)
Transfers	-	100,004	5,662,840	146,559	(5,909,403)	-
As of 31 December 2011	345,667	21,262,872	83,831,762	3,136,747	823,506	109,400,554
Additions	-	-	-	-	11,033,941	11,033,941
Disposals	-	(166,287)	(3,201,591)	(49,179)	-	(3,417,057)
Transfers	135	1,469,017	8,169,016	181,489	(9,819,657)	-
As of 31 December 2012	345,802	22,565,602	88,799,187	3,269,057	2,037,790	117,017,438
ACCUMULATED DEPRECIATION						
As of 31 December 2010						
(Reclassified)	-	8,812,115	38,472,054	2,669,379	-	49,955,548
Additions	-	1,298,086	5,990,649	158,792	-	7,447,527
Disposed replaced part	-	-	324,085	-	-	324,085
Disposals	-	-	(3,715,032)	(39,219)	-	(3,754,251)
As of 31 December 2011	-	10,110,201	41,073,756	2,788,952	-	53,972,909
Additions	-	1,258,051	5,822,845	158,495	-	7,239,391
Disposals	-	(166,287)	(3,194,299)	(49,014)	-	(3,409,600)
As of 31 December 2012	-	7,872,786	30,714,153	2,037,031	-	40,623,970
NET CARRYING AMOUNT						
As of 31 December 2011	345,667	11,152,671	42,758,006	347,795	823,506	55,427,645
As of 31 December 2012	345,802	11,363,637	45,096,885	370,624	2,037,790	59,214,738

The registered cadastral value of buildings owned by the Company as of 31 December 2012 was LVL 3,816,241 (EUR 5,430,022) (2011: LVL 3,779,533 (EUR 5,377,791)). The registered cadastral value of land owned by the Company as at 31 December 2012 was LVL 945,747 (EUR 1,345,677) (2011: 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 2012 of LVL 41,743,085 (EUR 59,395,066) (2011: LVL 38,986,465 (EUR 55,472,743)) 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 2012 amounted to LVL 9,043,568 (EUR 12,867,838) (2011: LVL 9,921,076 (EUR 14,116,419)).

Equipment and machinery includes precious metal plates that are used in production, with net carrying amount as of 31 December 2012 of LVL 5,979,128 (EUR 8,507,333) (2011: LVL 6,301,030 (EUR 8,965,558)). According to the metal prices quoted in London Stock Exchange as at 31 December 2012 the market price of the precious metals was LVL 10,866,065 (EUR 15,461,018) (2011: LVL 11,056,097 (EUR 15,731,409)).

NOTES TO THE FINANCIAL STATEMENTS
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6. RAW MATERIALS

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Raw materials	4,348,928	6,187,967	4,275,621	6,083,661
Allowance for slow moving inventories	(50,000)	(71,144)	-	-
Total	4,298,928	6,116,823	4,275,621	6,083,661

7. FINISHED GOODS

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Finished goods	5,192,860	7,388,774	4,608,352	6,557,094
Allowance for excess of net realizable value over cost	(55,559)	(79,053)	(71,602)	(101,880)
Total	5,137,301	7,309,721	4,536,750	6,455,214

8. TRADE RECEIVABLES

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
P-D Glasseiden Oschatz GmbH (related party)	3,068,248	4,365,724	2,158,263	3,070,932
VITRULAN Technical Textiles GmbH (related party)	53,408	75,993	-	-
VITRULAN Textile Glass GmbH (related party)	-	-	436	620
P-D Tafneft Fiberglas Alabuga (related party)	158,928	226,134	91,282	129,883
P-D Refractories GmbH (related party)	-	-	7,797	11,094
Other trade receivables	3,260,098	4,638,702	3,800,457	5,407,563
Allowances for doubtful receivables	(63,848)	(90,848)	(62,115)	(88,382)
Total	6,476,834	9,215,705	5,996,120	8,531,710

9. OTHER RECEIVABLES

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
VAT overpayment (see Note 16)	447,567	636,831	416,803	593,057
VAT on unpaid invoices	139,059	197,863	148,376	211,120
Other receivables	33,191	47,226	40,535	57,676
Allowance for doubtful receivables	(22,316)	(31,753)	(22,948)	(32,652)
Total	597,501	850,167	582,766	829,201

NOTES TO THE FINANCIAL STATEMENTS
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Change in allowance for doubtful receivables:

	LVL	EUR
Allowance as of 31 December 2010	72,087	102,570
Decrease due to collection (see Note 21)	(5,984)	(8,514)
The additional provisions (see Note 25)	18,961	26,979
Allowance as of 31 December 2011	85,064	121,035
Decrease due to collection (see Note 21)	(19,928)	(28,355)
The additional provisions (see Note 25)	21,029	29,922
Allowance as of 31 December 2012	86,165	122,602

10. DEFERRED EXPENSES

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Precious metal plates reprocessing expenses	119,247	169,673	212,895	302,922
Insurance expenses	62,596	89,066	57,759	82,184
Other deferred expenses	63,626	90,532	41,192	58,611
Total	245,469	349,271	311,846	443,717

11. CASH AND CASH EQUIVALENTS

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Cash in bank	168,422	239,643	218,637	311,092
Total	168,422	239,643	218,637	311,092

12. SHARE CAPITAL

The Company's registered share capital as of 31 December 2012 and 2011 was LVL 23,903,205 (EUR 34,011,197).

The Company's paid-in share capital as of 31 December 2012 and 2011 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 2012 and 2011 the shareholders of the Company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	2012	2011
P-D Glasseiden Oschatz GmbH	26.1%	26.0%
Vitrulan International GmbH	36.2%	36.2%
P-D Management Industries –Technologies GmbH	23.9%	23.9%
Beatrix Preiss – Daimler	4.5 %	2.6%
VAS VSAA	2.4 %	2.4%
Other	6.9 %	8.9%
Total	100.0%	100.0%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012

13. DUE TO CREDIT INSTITUTIONS

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Non-current part:				
Loan due within 2 to 5 years	11,230,437	15,979,472	11,881,571	16,905,952
Loan due after more than 5 years	2,862,653	4,073,188	4,602,031	6,548,101
Total non-current part	14,093,090	20,052,660	16,483,602	23,454,053
Current part:				
Credit line	3,814,135	5,427,025	2,478,367	3,526,398
Loan	3,016,782	4,292,494	2,970,396	4,226,493
Total current part	6,830,917	9,719,519	5,448,763	7,752,891
Total	20,924,007	29,772,179	21,932,365	31,206,944

On 2 April 2001 the Company signed a credit line agreement with AS Swedbank to increase working capital. As of 31 December 2012 and 2011 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. The maturity date of the credit line is 16 July 2013. The credit line is secured by the Company's inventories with the carrying amount of LVL 10,893,338 (EUR 15,499,823) (2011: LVL 10,081,587 (EUR 14,344,807)).

On 28 February 2012 the Company signed a loan agreement with AS SEB banka in the amount of EUR 500,000 (LVL 351,402) to obtain finance for increase in current assets. The interest rate for the credit line is 3 month EURIBOR + 1.4%. Maturity date of the credit line is 11 February 2014.

As of 31 December 2011 the amount of available and not yet withdrawn credit lines was EUR 1,072,975 (LVL 754,091) (2011: EUR 2,473,602 (LVL 1,738,457)).

In addition to credit lines, the Company has signed several loan agreements with credit institution :

Date of agreement	Principal amount EUR	Annual interest rate	Maturity date	Unpaid amount	Unpaid amount
				31.12.2012 EUR	31.12.2012 LVL
05.06.2005	36,000,000	3 month EURIBOR + 1.39%*	30.12.2018	21,073,114	14,810,269
16.04.2008	5,000,000	3 month EURIBOR + 1.34%	10.04.2016	2,380,943	1,673,336
06.11.2012	945,000	3 month EURIBOR + 1.894%	06.11.2016	-	-
06.11.2012	385,000	3 month EURIBOR + 1.894%	06.11.2017	324,500	228,060
20.12.2012	7,000,000	3 month EURIBOR + 2.164%	20.12.2017	566,595	398,205
Total				24,345,152	17,109,870

* the Company has signed an interest rate swap contract for the loan. As of 31 December 2012, the fair value of interest swap agreement amounts to a liability of EUR 2,472,990 (LVL 1,738,027) (2011: EUR 2,417,724 (LVL 1,699,186)). The derivative is stated at cost.

The loans are secured by the assets of the Company with the carrying amount as of 31 December 2012 of LVL 60,885,089 (EUR 86,631,677) (2011: LVL 56,526,718 (EUR 80,430,274)).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012

14. FINANCE LEASE

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Non-current	77,374	110,093	19,149	27,246
Current	38,810	55,222	14,362	20,436
Total	116,184	165,315	33,511	47,682

The interest rate for the lease is variable 3 month EURIBOR and fixed rate 1.894%-2.65%.

Net carrying amount of fixed assets purchased based on finance lease agreements amounts to LVL 147,886 (EUR 210,423)).

15. TRADE PAYABLES

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
For services received	2,521,008	3,587,071	1,647,211	2,343,770
For goods received	1,744,329	2,481,957	1,305,423	1,857,449
For fixed assets	898,800	1,278,877	141,153	200,843
Total	5,164,137	7,347,905	3,093,787	4,402,062

16. TAXES AND SOCIAL SECURITY CONTRIBUTIONS

LVL	31.12.2011		Calculated	Transfers	Returned from the state	Paid	31.12.2012	
	Over-payment	Liability					Over-payment	Liability
Natural resource tax	-	4,093	17,539	-	-	17,348	-	4,284
Real estate tax	-	-	49,810	-	-	49,810	-	-
Social security contributions	-	353,239	2,229,691	2,321,974	-	-	-	260,956
Personal income tax	-	114,717	1,337,360	-	-	1,289,013	-	163,064
Enterprise risk duty	-	204	2,590	-	-	2,567	-	227
Value added tax	416,803	-	(3,088,280)	(2,321,974)	735,542	-	447,567	-
Total	416,803	472,253	548,710	-	735,542	1,358,738	447,567	428,531

EUR	31.12.2011		Calculated	Transfers	Returned from the state	Paid	31.12.2012	
	Over-payment	Liability					Over-payment	Liability
Natural resource tax	-	5,824	24,956	-	-	24,684	-	6,096
Real estate tax	-	-	70,873	-	-	70,873	-	-
Social security contributions	-	502,613	3,172,564	3,303,871	-	-	-	371,306
Personal income tax	-	163,228	1,902,892	-	-	1,834,100	-	232,020
Enterprise risk duty	-	290	3,685	-	-	3,652	-	323
Value added tax	593,057	-	(4,394,227)	(3,303,871)	1,046,582	-	636,831	-
Total	593,057	671,955	780,743	-	1,046,582	1,933,309	636,831	609,745

NOTES TO THE FINANCIAL STATEMENTS
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17. OTHER ACCOUNTS PAYABLE

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Salary	341,390	485,755	237,759	338,301
Other	9,517	13,541	7,726	10,993
Total	350,907	499,296	245,485	349,294

18. ACCRUED LIABILITIES

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Accrual for vacations	63,468	90,307	60,913	86,671
Accruals for remuneration of Board and Council members	152,526	217,025	96,165	136,831
Other	32,400	46,101	-	-
Total	248,394	353,433	157,078	223,502

19. DEFERRED INCOME

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
EU fund financial assistance (Non-current)	688,809	980,087	-	-
EU fund financial assistance (Current)	104,475	148,654	-	-
Total	793,284	1,128,741	-	-

The balance sheet item "Deferred income" represents financing received from the funds of the European Union in relation of acquisition of one-stage fiber glass manufacturing technology. Total available amount of the European Union financing for this project is LVL 976,121 (EUR 1,388,895).

As of 31 December 2012 the Company has complied with the requirements of the agreement with Investment and Development Agency of Latvia related to received financing.

20. SALES

Net sales by geographical area:

	2012		2011	
	LVL	EUR	LVL	EUR
Export sales:				
European Union	34,527,600	49,128,349	33,445,184	47,588,210
North America	6,330,409	9,007,361	5,134,760	7,306,105
CIS	4,298,464	6,116,163	3,879,077	5,519,429
Other countries	2,597,317	3,695,649	2,032,368	2,891,799
Local sales	2,153,283	3,063,845	2,088,780	2,972,066
Total	49,907,073	71,011,367	46,580,169	66,277,609

NOTES TO THE FINANCIAL STATEMENTS
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Net sales by production type:

	2012		2011	
	LVL	EUR	LVL	EUR
Fibreglass textiles	32,784,754	46,648,502	27,666,069	39,365,270
Fibreglass threads	13,779,758	19,606,829	16,187,893	23,033,296
Other	3,342,561	4,756,036	2,726,207	3,879,043
Total	49,907,073	71,011,367	46,580,169	66,277,609

21. OTHER OPERATING INCOME

	2012		2011	
	LVL	EUR	LVL	EUR
Sales of emission quotas	-	-	164,561	234,149
Sale of raw materials	146,067	207,835	153,749	218,765
Insurance indemnification	11,574	16,468	-	-
Income from rent of fixed assets	12,979	18,467	12,144	17,279
Received bad debts (see Note 9)	19,928	28,355	5,984	8,515
Other	101,701	144,708	35,820	50,967
Total	292,249	415,833	372,258	529,675

22. RAW MATERIALS AND COSUMABLES

	2012		2011	
	LVL	EUR	LVL	EUR
Raw materials	15,794,856	22,474,055	16,273,053	23,154,468
Natural gas	3,243,297	4,614,796	2,443,118	3,476,244
Electricity	3,698,143	5,261,983	3,311,040	4,711,185
Precious metal plates processing costs	355,913	506,419	299,554	426,227
Other	3,022,024	4,299,953	2,686,147	3,822,043
Total	26,114,233	37,157,206	25,012,912	35,590,167

23. PERSONNEL EXPENSES

	2012		2011	
	LVL	EUR	LVL	EUR
Salaries	6,170,051	8,779,192	5,115,729	7,279,027
Social security contributions	1,485,757	2,114,042	1,287,724	1,832,266
Illness and vacation expenses	467,842	665,679	558,259	794,331
Accruals for remuneration of Board and Council	152,527	217,026	96,165	136,830
Insurance of employees	41,094	58,471	41,185	58,601
Other	28,059	39,924	27,635	39,321
Total	8,345,330	11,874,334	7,126,697	10,140,376

The average number of employees was 856 (2011: 790).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012

24. DEPRECIATION AND AMORTISATION

	2012		2011	
	LVL	EUR	LVL	EUR
Fixed asset depreciation based on straight line method	4,870,019	6,929,412	5,026,704	7,152,355
Depreciation of precious metal plates	217,854	309,978	207,448	295,172
Intangible asset amortization (see Note 4)	4,303	6,123	5,226	7,436
Total	5,092,176	7,245,513	5,239,378	7,454,963

25. OTHER OPERATING EXPENSES

	2012		2011	
	LVL	EUR	LVL	EUR
Transportation	3,402,003	4,840,614	2,943,200	4,187,796
Sales commission	1,007,541	1,433,602	1,213,541	1,726,713
Service costs	679,568	966,938	597,710	850,465
Spare parts	496,631	706,642	362,464	515,740
Repair expenses	434,725	618,558	433,998	617,523
Business trips	223,703	318,301	218,323	310,646
Insurance	203,285	289,248	141,159	200,851
Leasing	210,553	299,590	83,775	119,201
Research and development expenses	147,176	209,413	121,570	172,978
Property tax	49,810	70,873	57,232	81,434
Communication	70,569	100,411	60,191	85,644
Selling expenses	61,759	87,875	49,809	70,872
Office expenses	47,280	67,273	43,372	61,713
Labour safety and specific clothing	48,032	68,343	35,476	50,478
Audit and similar fees*	19,698	28,028	20,050	28,528
Allowance for doubtful receivables (Note 9)	21,029	29,922	18,960	26,978
Other	358,835	510,576	420,223	597,924
Total	7,482,197	10,646,207	6,821,053	9,705,484

* SIA Deloitte Audits Latvia has provided financial statement audit services only. Fee for audit for 2012 was EUR 24,000 (LVL 16,867).

26. INTEREST AND SIMILAR INCOME

	2012		2011	
	LVL	EUR	LVL	EUR
Net gain on foreign exchange rate fluctuations	-	-	56,738	80,731
Interest income	1,639	2,332	10,777	15,334
Total	1,639	2,332	67,515	96,065

27. INTEREST AND SIMILAR EXPENSES

	2012		2011	
	LVL	EUR	LVL	EUR
Net loss on foreign exchange rate fluctuations	140,516	199,936	-	-
Interest expense	1,063,951	1,513,866	1,253,069	1,782,957
Interest expense	1,638	2,331	601	855
Total	1,206,105	1,716,133	1,253,670	1,783,812

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012

28. CORPORATE INCOME TAX

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

	2012		2011	
	LVL	EUR	LVL	EUR
Profit/ (loss) before tax	2,862,494	4,072,962	1,530,796	2,178,126
Expected tax charge, applying current tax rate of 15%	(429,374)	(610,944)	(229,619)	(326,718)
Tax effect of non-deductible items	(38,490)	(54,766)	(33,786)	(48,073)
Tax credit received for new technological equipment*	330,126	469,727	289,987	412,614
Effect of prior year unrecognized deferred tax asset	24,009	34,162	(26,582)	(37,823)
Corporate income tax charge	(113,729)	(161,821)	-	-

* The tax base of new technological equipment purchased in 2012 is calculated by multiplying the acquisition cost with a coefficient of 1.5 (2009 - 2011: 1.5, 2008: 1.3, 2007: 1.4). Total amount of related tax credit not used as of 31 December 2012 is LVL 495,189 (EUR 704,590) (2011: LVL 434,980 (EUR 618,921)). 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

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

	31.12.2012		31.12.2011	
	LVL	EUR	LVL	EUR
Deferred tax liabilities:				
Temporary difference on depreciation of fixed assets	3,266,110	4,647,257	2,788,586	3,967,800
Deferred tax assets:				
Temporary difference on accrued liabilities	(37,259)	(53,015)	(23,412)	(33,312)
Allowance for excess of inventories net realizable value over cost	(15,834)	(22,530)	(10,740)	(15,282)
Tax loss carry forward*	(3,099,288)	(4,409,890)	(2,778,443)	(3,953,368)
Total deferred tax assets	(3,152,381)	(4,485,435)	(2,812,595)	(4,001,962)
Net deferred tax liability / (asset)	113,729	161,822	(24,009)	(34,162)
Unrecognized deferred tax assets	-	-	24,009	34,162
Recognized deferred tax liability	113,729	113,729	-	-

* Tax losses have been incurred in 2006 - 2012 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
	5,141,097	7,315,122	Unlimited
Total	20,661,925	29,399,271	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012

29. EARNINGS PER SHARE

	2012		2011	
	LVL	EUR	LVL	EUR
Current year profit	2,748,765	3,911,140	1,530,796	2,178,126
Average number of shares outstanding	23,903,205	23,903,205	23,903,205	23,903,205
Earnings per share	0.1150	0.1636	0.0640	0.0911

30. MANAGEMENT REMUNERATION

	2012		2011	
	LVL	EUR	LVL	EUR
Members of the Council:				
Compensation	121,540	172,936	60,824	86,545
Social security payments	10,912	15,526	5,383	7,659
Members of the Board:				
Compensation	251,734	358,185	199,460	283,806
Social security payments	24,807	35,297	19,473	27,708
Other management:				
Salary	312,164	444,169	295,563	420,548
Social security payments	71,962	102,393	67,198	95,614
Total	793,119	1,128,506	647,901	921,880

In 2012 and 2011 the Company has not granted or received any loans from the members of Council, Board or other management.

31. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

	31.12.2012 Accounts receivable LVL	31.12.2012 Accounts payable LVL	31.12.2011 Accounts receivable LVL	31.12.2011 Accounts payable LVL
P-D Glasseiden Oschatz GmbH	3,068,248	228,997	2,158,263	61,188
VITRULAN Textile Glass GmbH	-	19,148	-	13,823
VITRULAN Technical Textiles GmbH	53,408	704	-	5,016
VITRULAN International GmbH	-	-	436	471
P-D Refractories GmbH	-	-	7,797	-
P-D Preiss –Daimler Consulting	-	7,086	-	10,437
P-D Tatneft Fiberglas Alabuga	158,928	7,593	91,282	2,080
P-D Management Industries – Technologies	-	3,893	-	127
Total	3,280,584	267,421	2,257,778	93,142

NOTES TO THE FINANCIAL STATEMENTS
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	31.12.2012 Accounts receivable EUR	31.12.2012 Accounts payable EUR	31.12.2011 Accounts receivable EUR	31.12.2011 Accounts payable EUR
P-D Glasseiden Oschatz GmbH	4,365,724	325,833	3,070,932	87,063
VITRULAN Textile Glass GmbH	-	27,245	-	19,668
VITRULAN Technical Textiles GmbH	75,993	1,002	-	7,137
VITRULAN International GmbH	-	-	620	670
P-D Refractories GmbH	-	-	11,094	-
J. Preiss- Daimler Consulting	-	10,083	-	14,851
P-D Tatneft Fiberglas Alabuga	226,134	10,804	129,883	2,960
P-D Management Industries – Technologies	-	5,539	-	180
Total	4,667,851	380,506	3,212,529	132,529

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

	2012		2011	
	LVL	EUR	LVL	EUR
Sales of goods	25,086,995	35,695,578	25,756,545	36,648,262
Acquisition of fixed assets and construction in progress	84,368	120,045	2,182,639	3,105,615
Purchase of goods	827,433	1,177,331	1,174,356	1,670,958
Sales commissions	1,007,541	1,433,602	1,213,541	1,726,713
Received services	1,025,198	1,458,725	135,098	192,227
Provided services	30,122	42,860	38,707	55,075

32. FINANCIAL RISK MANAGEMENT

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 12% of total sales in 2012 resulted from contracts denominated in USD (2011: 10%).

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

	31.12.2012	31.12.2011
Financial assets, USD	251,426	304,737
Net balance sheet position, USD	251,426	304,737
Net balance sheet position, LVL	133,507	165,777
Net balance sheet position, EUR	189,963	235,879

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. To reduce potential adverse effects of foreign currency changes, the Company uses derivative financial instruments for significant transactions in US dollars.

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 2012 and 2011 the Company had significant credit risk exposure to a single customer – related company. Sales to this related party amounted to 32.0% of the total sales of the Company. The receivable from his customer as of 31 December 2012 amounted to LVL 3,068,248 (EUR 4,365,724) or 5 % to total assets (2011: LVL 2,158,263 (EUR 3,070,932)). 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 assets.

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 and EUR 0.5 million credit line was available assigned by SEB banka AS. As of 31 December 2012 the assigned credit line facilities used amounted to LVL 3,814,135 (EUR 5,427,025) (2011: LVL 2,478,367 (EUR 3,526,398)) (see Note 13). The Company's current and quick ratios as of 31 December 2012 were 1.38 and 0.56 respectively (as of 31 December 2011 – 1.80 and 0.75 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 2012, total notional amount of interest rate swap contract is EUR 21,073,113 (LVL 14,810,268) (2011: EUR 24,585,314 (LVL 17,278,657)), the fair value amounts to a liability of EUR 2,472,989 (LVL 1,738,027) (2011: EUR 2,417,724 (LVL 1,699,186)). The derivative is stated at cost in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR 2012*Fair value of financial instruments*

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.

33. 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 2012 and 2011.

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

	2012		2011	
	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	366,405	521,347	412,206	586,516
Total	595,409	847,190	641,210	912,359

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:

	2012		2011	
	LVL	EUR	LVL	EUR
Within 1 year	4,005,081	5,698,717	5,313,843	7,560,917
2 to 5 years	2,281,836	3,246,760	2,281,836	3,246,760
Total	6,286,917	8,945,477	7,595,679	10,807,677

c) Other operating lease

The Company as a lessee has entered in operating lease agreements for premises and equipment. Total lease expenses in 2012 were LVL 193,219 (EUR 274,926) (2011: LVL 66,374 (EUR 94,442)). Total future lease payments are as follows:

	2012		2011	
	LVL	EUR	LVL	EUR
Within 1 year	91,824	130,654	75,648	107,637
2 to 5 years	402,015	572,016	262,704	373,794
Total	493,839	702,670	338,352	481,431

34. EMISSION RIGHTS

The Company has received a free of charge allowance for emission of CO₂ from 2008 up to 2012 (total 299,483 quotas). Actual emission in 2012 amounted to 27,520 quotas (2011: 26,020). Remaining emission balance for 31 December 2012 were 87,433 quotas. Based on Latvian law "On Pollution" remaining quotas for the period from 2008 to 2012 can be used during the next period from 2013 to 2020.
