

JOINT STOCK COMPANY "VALMIERAS STIKLA ŠĶIEDRA"

Registration Number 40003031676

Financial Report for the period ended September 30th 2014

UNAUDITED

Made in accordance with the International Financial Reporting Standards

COMPANY PROFILE

| | |
|--------------------------------------|---|
| The name of the enterprise: | Valmieras stikla šķiedra |
| The legal status: | Joint Stock Company |
| Registration number: | 40003031676 |
| Registration place, date: | Riga, September 30 th 1991 |
| Type of business: | Production of glass fibre products / NACE 23.14 |
| Registered office: | 13 Cempu Street Valmiera, LV- 4201 Latvia |
| The board: | <i>Chairman of the Board:</i> Andris Oskars Brutāns, President <i>Board Members:</i> Andre Heinz Schwiontek, Vice President Dainis Šēnbergs Jöran Pfuhl (till Mai 22 nd 2014) Hans-Jochen Häusler Stefan Jugel Friedhelm Schwender (till February 25 th 2014) |
| The council: | <i>Chairman of the Council:</i> Jürgen Preiss-Daimler <i>Council Members:</i> Hans Peter Cordts Frank Wilhelm Behrends Guntis Strazds Aivars Lošmanis (till Mai 31 st 2014) Jöran Pfuhl (since Mai 31 st 2014) |
| The period of the report: | January 1 st 2014 – September 30 th 2014 |
| Companies included in consolidation: | Valmiera Glass UK Ltd (100% shares) Valmiera Glass USA Corp. (100% shares) Valmiera Glass Trading USA Corp. (100% shares) |

TABLE OF CONTENTS

| | |
|--|----|
| Company profile | 2 |
| Table of Contents | 3 |
| Management report | 4 |
| The statement of management responsibilities | 9 |
| Balance Sheet (ASSETS)..... | 10 |
| Balance Sheet (Liabilities) | 11 |
| Statement of profit and loss..... | 12 |
| Statement of cash flows | 13 |
| Statement of shareholders' eQuity | 14 |
| ANNEX..... | 15 |

MANAGEMENT REPORT

General information

Type of Business

During the reporting period the Valmiera Glass Group includes the JSC "Valmieras stikla šķiedra" and its' subsidiaries Valmiera Glass UK Ltd in Great Britain and Valmiera Glass USA Corp and Valmiera Glass USA Trading Corp. in United States of America (further in the text – Group). The main profiles of JSC "Valmieras stikla šķiedra" are glass fibre research, development, manufacturing and sales.

JSC "Valmieras stikla šķiedra" manufactures glass fibre and glass fibre products from two types of glass (E-glass 600°C, SiO₂-glass 1000+°C). These can be used for further processing, for technical (electro, thermal and sound) insulation materials, as well as ready-made building and mechanical engineering materials et al.

The subsidiary company Valmiera Glass UK Ltd, which has more as 80 years' experience in textile processing of glass fibre, produces the glass fibre products for the aviation industry, thermal insulation and architecture, while Valmiera Glass USA Corp. will produce glass fibre products with high added value. Valmiera Glass Trading USA Corp. will engage with sales of the Groups production in USA. It's planned, that Valmiera Glass USA Corp. will begin with production at 1st quarter 2015, while Valmiera Glass Trading USA Corp. in January 2015. Valmiera Glass Group positions itself as a vertically integrated supplier of different composite materials for the aviation industry, architecture and other branches – from glass fibre production to impregnated / reinforced fabrics.

Sales

The production of JSC Valmieras stikla šķiedra is being realized in 38 countries all over the world, reaching 97% export capacity. The main sales markets of JSC "Valmieras stikla šķiedra" are: the countries of the European Union (75%, an increase of 4% compared with the same period last year) and North America. Middle East and Asia region export market significantly evolve.

Analysing the segments of products, growth of sales volume has been recognized for the products with high added value: glass fibre products with high SiO₂ content, glass fibre nettings and non-woven products. All these products in the first nine months of 2014 have been sold for 13% more as in the same period of 2013. For other product segments the sales growth is valued as stable.

Establishment of Subsidiary Corporation in USA

The main occasion during the report period has been the establishment of two subsidiary companies in United States of America: Valmiera Glass USA Corp. – factory, where high added value glass fibre products will be manufactured –, and Valmiera Glass Trading USA Corp. – company, with the aim to sell Valmiera Glass Group production in USA.

The location of Valmiera Glass USA Corp. will be a 16ha land in an Industrial park in Dublin, Georgia. Expected that the 7,4 thousand square meter big factory will manufacture glass fibre

products with high added value for the North America market. Planned, that Valmiera Glass USA Corp. will start with the production on the first quarter 2015. In the company in the next five years 150 workplaces will be created and investments made in the amount of USD 20 Million, including USD 6,5 Million (EUR 4,8 Mill.) investing in the first new production phase.

Since the 13th of August 2014 both companies Valmiera Glass USA Corp. and Valmiera Glass Trading USA Corp. are recognized as JSC "Valmieras stikla šķiedra" assets and their shares are taken in accounts at JSC Valmieras stikla šķiedra. At the moment of the financial report for the nine months 2014 (till 30th September 2014), in Valmiera Glass USA Corp. are invested EUR 0,79 Million in construction of industrial building and equipment purchase.

The establishing of subsidiary companies in the USA is a business development step directed towards clients. Due to both companies' activities, the production will be more reachable to the client, the terms of delivery will decrease, looking at the long-term – profitability will increase and closer partnerships will form with the major clients. This shall lead to new business development opportunities and will strengthen the Groups positions in the world's glass fibre market.

Employees

The average number of employees working in Valmiera Glass Group at first nine months of 2014 were 1114 where the average number of employees in JSC "Valmieras stikla šķiedra" were 962. In the subsidiary company Valmiera Glass UK Ltd in the first nine months of 2014 were 150 persons employed, but in Valmiera Glass USA Corp. – 1. Totally this means the workforce increase compared the data of 2014 to the same period of last fiscal year.

Investments

In the first nine months of 2014 in the development of the Group were invested EUR 8.30 Million, including new production plants, the modernization of the existing technical and technological solutions and the development of new products with the aim of increasing the production capacity of the Group. It is planned that the total investments of 2014 could reach EUR 8.62 Million.

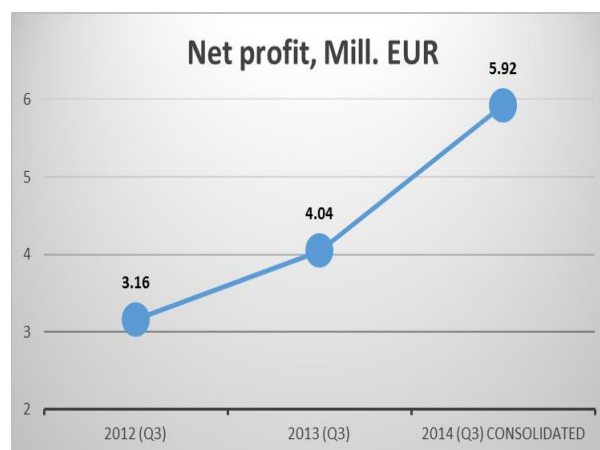
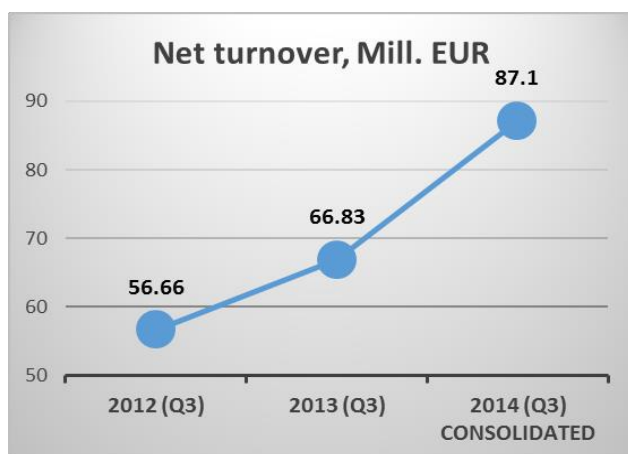
Quality management

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

Finance results

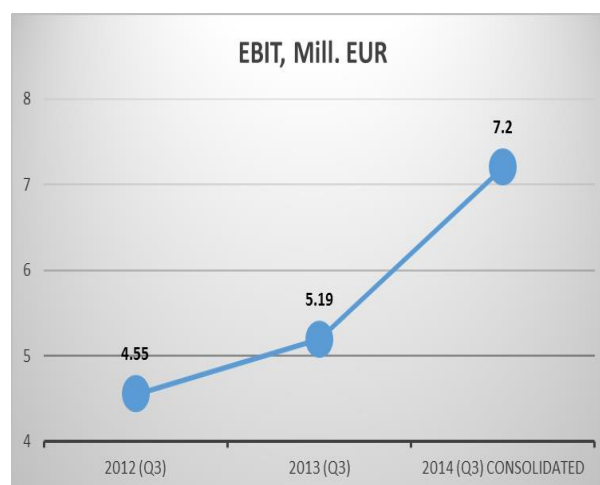
The consolidated net turnover of the Group in the first nine months of 2014 has reached EUR 87.10 Million. Comparing to the financial results of JSC "Valmieras stikla šķiedra" at the nine months of 2013, it's a growth of EUR 20.27 Million or 30%.

The consolidated net profit of the Group in the first three quarters of 2014 has reached EUR 5.92 Million that is for 47% more compared to the net profit of JSC "Valmieras stikla šķiedra" at the same period of last fiscal year.

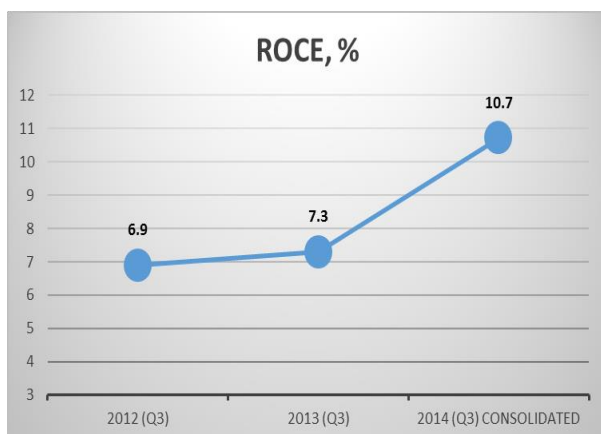


The consolidated operating profit (EBITDA) was EUR 14.28 Million and it's 28% more than at first three quarters of 2013, compared to the financial results of JSC "Valmieras stikla šķiedra".

The earnings before the interest and taxes (EBIT) reached EUR 7.20 Mill. that is about 38% more as in the same period of 2013.



The consolidated return on capital (ROCE) is 10,7% whereas the consolidated operating profit margin ratio of the first three quarters of 2014 was 8.3%.



In the third quarter of 2014 JSC "Valmieras stikla šķiedra" signed the contract with the Latvian Investment and Development agency about supply for high added value manufacturing investment with the financial supply of EUR 0.9 Million. For realizing the investment program the company received a loan for the total sum of EUR 1.7 Million from JSC "Swedbank" with the loan redemption date of August 2020.

In the third quarter of 2014 also a contract has been signed with the Latvian Investment and Development agency in the program "Innovation in the "green" manufacturing" with the financial supply of EUR 0,5 Million – the realization is planned at the end of 2014.

Although the Groups export market has been diversified, due to the geopolitical situation and currently difficult to predict Russia and Ukraine conflict political and economic perspectives and considering the Groups company's Valmiera Glass UK Ltd. couple of Atex® planned projects realization has been postponed to begin of 2015, JSC Valmieras stikla šķiedra management forecasts that the net turnover could reach EUR 122 Million, that is 38% more than the audited consolidated net turnover ratio the same period 2013. While consolidated net profit in 2014 has been reviewed and evaluated for EUR 8 Million that is about 57% more than the audited consolidated net profit ratio the same period 2013.

Shares market

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

*The share price development of JSC Valmieras stikla šķiedra in period of 01.01.2014 to 30.09.2014
Information from: AS „NASDAQ OMX Riga”, home page www.nasdaqomxbaltic.com*



The Company's share price from January 1st 2014 till September 30th 2014 has increased by EUR 1.947 or 94.36%. The value of one share at January 1st 2014 was EUR 2.063 but till September 30th 2014 the price had to EUR 4.01.

The total amount of shares sold in the first three quarters 2014 reach 395.6 thousand and the share turnover of JSC "Valmieras stikla šķiedra" has reached EUR 1.27 Million.

JSC Valmieras stikla šķiedra
The Chairman of the Board
Andris Oskars Brutāns

November 7th 2014

THE STATEMENT OF MANAGEMENT RESPONSIBILITIES

The management of the Valmiera Glass Group is responsible for preparation of the financial statements.

The Financial Statements are prepared in accordance with the source documents and present fairly the state of affairs of the Group at the end of September 30th 2014 and the results of its operations and cash flows for the period ended on September 30th 2014. The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements presented. The management also confirms that the applicable requirements of the International Financial Reporting Standards are followed. The financial statements of the Group have been prepared on a going concern basis.

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

In the name of the management,

JSC "Valmieras stikla šķiedra"
The Chairman of the Board

Andris Oskars Brutāns

November 7th 2014

BALANCE SHEET (ASSETS)

As at September 30th 2014 and September 30th 2013

| | 30.09.2014 | 30.09.2013 |
|--|--------------------|-------------------|
| | EUR | EUR |
| ASSETS | | |
| Non-current assets | | |
| Intangible assets | | |
| Patents, licenses, trade mark and similar rights | 472 631 | 52 330 |
| Costs of establishment of intangible investments | - | 156 951 |
| Goodwill | 3 930 822 | - |
| Total intangible assets | 4 403 453 | 209 282 |
| Tangible fixed assets | | |
| Land and buildings | 14 066 742 | 11 137 374 |
| Equipment and machinery | 46 738 982 | 46 752 543 |
| Other fixed assets | 856 646 | 642 136 |
| Constructions in progress | 2 256 337 | 2 232 117 |
| Advance payments for fixed assets | 2 625 334 | 294 423 |
| Total fixed assets | 66 544 041 | 61 058 594 |
| Deferred tax assets | 1 088 889 | - |
| Total non-current assets | 72 036 383 | 61 267 876 |
| Current assets | | |
| Inventory | | |
| Raw materials | 8 571 402 | 6 224 724 |
| Works in progress | 3 471 908 | 2 384 443 |
| Finished goods | 11 969 043 | 4 334 268 |
| Advance payments for inventories | 385 713 | 184 352 |
| Total inventory | 24 398 066 | 13 127 787 |
| Accounts receivable | | |
| Trade receivables | 17 972 313 | 14 668 620 |
| Other receivables | 535 851 | 652 449 |
| Deferred expenses | 441 286 | 559 382 |
| Total accounts receivable | 18 949 450 | 15 880 452 |
| Cash and cash equivalents | 682 634 | 1 189 283 |
| Total current assets | 44 030 150 | 30 197 522 |
| TOTAL ASSETS | 116 066 533 | 91 465 397 |

BALANCE SHEET (LIABILITIES)

As at September 30th 2014 and September 30th 2013

| | 30.09.2014 | 30.09.2013 |
|---|--------------------|-------------------|
| | EUR | EUR |
| LIABILITIES & SHAREHOLDERS' EQUITY | | |
| Shareholders' equity | | |
| Share capital | 33 464 487 | 34 011 197 |
| Other reserves | 2 053 389 | - |
| Retained earnings: | | |
| a) Retained earnings | 11 453 637 | 10 831 034 |
| b) Current year profit | 5 924 268 | 4 046 009 |
| Total shareholders' equity | 52 895 781 | 48 888 239 |
| Liabilities | | |
| Non-current liabilities | | |
| Due to credit institutions | 30 288 611 | 21 588 952 |
| Finance lease | 78 879 | 27 247 |
| Deferred tax | 677 308 | 176 051 |
| Retirement benefit obligation | 4 486 190 | - |
| Deferred income | 1 807 047 | 1 070 870 |
| Embedded derivatives | 1 392 846 | - |
| Total non-current liabilities | 38 730 881 | 22 863 120 |
| Current liabilities | | |
| Due to credit institutions | 9 124 532 | 9 319 479 |
| Finance lease | 83 423 | 159 951 |
| Advance payments from customers | 129 185 | 210 670 |
| Trade payables | 10 496 666 | 7 986 542 |
| Taxes and social security contributions | 704 872 | 461 814 |
| Other accounts payable | 562 056 | 455 582 |
| Accrued liabilities | 2 212 170 | 971 345 |
| Retirement benefit obligations | 958 254 | - |
| Deferred income | 168 713 | 148 655 |
| Total current liabilities | 24 439 871 | 19 714 038 |
| Total liabilities | 63 170 752 | 42 577 158 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | 116 066 533 | 91 465 397 |

STATEMENT OF PROFIT AND LOSS

For the period ended September 30th 2014 and September 30th 2013

| | 30.09.2014 | 30.09.2013 |
|--|-------------------|-------------------|
| | EUR | EUR |
| Sales | 87 091 182 | 66 838 190 |
| Change in inventories | 260 975 | (2 903 578) |
| Other operating income | 868 501 | 522 282 |
| Raw materials and consumables | (44 346 794) | (33 855 933) |
| Personnel expenses | (15 910 230) | (9 891 029) |
| Depreciation and amortization | (7 078 551) | (6 330 698) |
| Other operating expenses | (13 684 005) | (9 191 087) |
| Operating profit | 7 201 078 | 5 188 146 |
| Interest and similar income | 344 118 | 1374 |
| Interest and similar expenses | (1 206 241) | (1 129 284) |
| Profit from operations and before tax | 6 338 955 | 4 060 237 |
| Corporate income tax | (414 687) | (14 229) |
| NET PROFIT | 5 924 268 | 4 046 009 |
| Profit per share | 0.2478 | 0.1693 |

STATEMENT OF CASH FLOWS

| | 9 months 2014 EUR | 9 months 2013 EUR |
|---|-------------------------|-------------------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 6 338 955 | 4 060 237 |
| Adjustments: | | |
| Change in fair value of embedded derivatives | (232 990) | - |
| Provision changes | 1 031 479 | - |
| Depreciation and amortization | 7 078 551 | 6 330 698 |
| Profit or loss from disposal of fixed assets | - | (16162) |
| Interest expenses | 1 206 241 | 1 073 052 |
| Interest income | - | (1374) |
| Financial income EU Funding / LIAA State support | (158 214) | - |
| Changes in operating assets and liabilities: | | |
| Inventories | (324 242) | 2 411 341 |
| Accounts receivable and other assets | (5 255 214) | (5 465 309) |
| Accounts payable and other liabilities | (2 034 929) | 1 089 082 |
| Interest revenue | - | 1 374 |
| Cash provided by operating activities | 7 649 637 | 9 482 938 |
| Investing activities | | |
| Purchase of fixed and intangible assets | (8 303 375) | (7 218 402) |
| Share purchase related companies | - | 16 162 |
| Net cash used in investing activities | (8 303 375) | (7 202 240) |
| Financing Activities | | |
| Dividends paid | (2 007 870) | (1 564 514) |
| Loans received | 5 073 905 | 3 932 448 |
| Loans paid | (4 016 598) | (2 396 156) |
| Credit line received | 1 655 440 | (400 041) |
| Finance lease paid | (21 845) | (30 866) |
| EU / LIAA funding received | 684 460 | 201 123 |
| Interest paid | (1 206 241) | (1 073 052) |
| Net cash provided by financing activities | 161 251 | (1 331 058) |
| Net decrease / increase in cash and cash equivalents | (492 487) | 949 640 |
| Cash and cash equivalents at the beginning of the year | 1 175 121 | 239 643 |
| Cash and cash equivalents at the end of the year | 682 634 | 1 189 283 |

STATEMENT OF SHAREHOLDERS' EQUITY

As at September 30th 2014 and 31 December 31st 2013

| | EUR | | | |
|---|-------------------|-------------------|------------------|-------------------|
| | Share capital | Retained earnings | Other reserves | Total |
| As of December 31st 2012 | 34 011 197 | 9 922 558 | - | 43 933 755 |
| Profit 12 months 2013 | - | 5 103 463 | - | 5 103 463 |
| Dividends paid | - | (1 564 514) | - | (1 564 514) |
| Other income | - | - | 475 201 | 475 201 |
| As of December 31st 2013 | 34 011 197 | 13 461 507 | 475 201 | 47 947 905 |
| Profit 3 months 2014 | - | 5 924 268 | - | 5 924 268 |
| Paid dividends | - | (2 007 870) | - | (2 007 870) |
| Other income | (546 710) | - | 1 578 188 | 1 031 478 |
| As of September 30th 2014 | 33 464 487 | 17 377 905 | 2 053 389 | 52 895 781 |

ANNEX

1. Share capital

The registered share capital of JSC "Valmieras stikla šķiedra" as at September 30th 2014 is EUR 33 464 487 and September 30th 2013 was EUR 34 011 196.58. The company's paid share capital registered with the Enterprise Register as at September 30th 2014 is EUR 33 464 487, consisting of 23 897 455 ordinary shares with voting rights and 5.750 ordinary shares without voting rights. The nominal value of each share is EUR 1.40.

As at September 30th 2014 and September 30th 2013 the shareholders of the JSC "Valmieras stikla šķiedra", in accordance with the records maintained by the Latvian Central Depository, were as follows:

| | 9 months 2014 | 9 months 2013 |
|--|---------------|---------------|
| Vitrolan International GmbH | 36.2% | 36.2% |
| P-D Glasseiden GmbH Oschatz | 26.1% | 26.1% |
| P-D Management Industries-Technologies GmbH | 23.9% | 23.9% |
| Valsts sociālās apdrošināšanas aģentūra, VAS | 2.4% | 2.4% |
| Preiss-Daimler Beatrix | 4.5% | 4.5% |
| Other | 6.9% | 6.9% |
| | 100.0% | 100.0% |

2. INFORMATION CONCERNING THE PROFIT OR LOSS ACCOUNT

| | 9 months 2014 EUR | 9 months 2013 EUR |
|--|----------------------|----------------------|
| 2.1. Material expenses | | |
| Raw materials | 29 928 712 | 21 674 029 |
| Natural gas | 3 832 206 | 3 668 949 |
| Electricity | 5 409 347 | 4 738 523 |
| Ore processing costs | 515 145 | 469 728 |
| Oxygen | 619 313 | 604 241 |
| Other | 4 042 072 | 2 700 463 |
| Total | 44 346 794 | 33 855 933 |
| 2.2. Personnel expenses | | |
| Salaries | 10 956 733 | 6 893 305 |
| Social security payments | 2 275 246 | 1 778 974 |
| Illness and vacation expenses | 867 529 | 767 628 |
| Provisions for remuneration of Board and Council | 740 000 | 372 223 |
| Insurance of employees | 79 927 | 43 558 |
| Other | 990 795 | 35 341 |
| Total | 15 910 230 | 9 891 029 |

2.3. Depreciation and amortization

| | | |
|-------------------------------|------------------|------------------|
| Fixed asset depreciation | 6 758 425 | 5 978 493 |
| Depletion of ore | 265 634 | 345 729 |
| Intangible asset amortization | 54 492 | 6 475 |
| Total | 7 078 551 | 6 330 698 |

2.4. Other operating expenses

| | | |
|-------------------------------------|-------------------|------------------|
| Transportation | 5 274 366 | 4 278 668 |
| Sales commission | 1 308 851 | 1 026 696 |
| Service costs | 1 461 336 | 900 994 |
| Spare parts | 1 017 606 | 673 128 |
| Repair expenses | 776 267 | 548 459 |
| Insurance | 345 842 | 173 326 |
| Business trips | 693 382 | 375 728 |
| Labour safety and specific clothing | 125 083 | 51 159 |
| Research and development expenses | 288 333 | 111 563 |
| Communications | 113 243 | 70 136 |
| Leasing | 524 023 | 337 138 |
| Office expenses | 202 056 | 55 953 |
| Selling expenses | 91 165 | 42 632 |
| Property tax | 162 428 | 158 359 |
| Increase in doubtful debts | 90 000 | 1 423 |
| Other | 1 210 023 | 385 726 |
| Total | 13 684 005 | 9 191 087 |

3. TRADE RECEIVABLES

| | 30.09.2014 | 30.09.2013 |
|--|-------------------|-------------------|
| | EUR | EUR |
| P-D Glasseiden GmbH Oschatz | 1 520 272 | 1 854 871 |
| P-D Tafneft Fiberglas Alabuga | 473 551 | 230 921 |
| P-D Industriegesellschaft mbH Bratendorf | 172 938 | 167 088 |
| P-D Interglas Technologies GmbH | 211 595 | - |
| Vitrolan Textile Glass GmbH | 138 725 | 284 473 |
| Vitrolan Technical Textiles GmbH | 297 368 | 727 893 |
| Other trade receivables | 15 362 604 | 11 403 374 |
| Increase in doubtful debts | (204 740) | - |
| Total | 17 972 313 | 14 668 620 |

For information stated in this financial report please contact:

Edīte Aizsilniece

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