

**JOINT STOCK COMPANY „VALMIERAS STIKLA ŠĶIEDRA”**

Registration Number 40003031676

Financial Report for the period ended June 30<sup>th</sup> 2016

UNAUDITED

Made in accordance with the International  
Financial Reporting Standards



VALMIERA GLASS®

Valmiera  
2016

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## 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 <sup>th</sup> 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> Andre Heinz Schwiontek, President  <i>Board Members:</i> Dainis Šēnbergs, Vice President Doloresa Volkopa Hans-Jochen Häusler Stefan Jugel
The council:	<i>Chairman of the Council:</i> Jürgen Preiss-Daimler  <i>Council members:</i> Peter Hans Cordts Frank Wilhelm Behrends Andris Oskars Brutāns Jöran Pfuhl
The period of the report:	January 1 <sup>st</sup> 2016 – June 30 <sup>th</sup> 2016
Companies included in consolidation:	Valmiera Glass UK Ltd (100% shares) Valmiera Glass USA Corp (100% shares) Valmiera Glass Trading USA Corp (100% shares)

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## MANAGEMENT REPORT

### General information

Valmieras stikla šķiedra JSC and its subsidiaries (hereinafter – Valmiera Glass Group or the Group) is one of the leading glass fiber manufacturers in Europe. Valmiera Glass Group companies operate in two continents and in three countries: Latvia, the UK and the US. AS Valmieras stikla šķiedra production facilities have more than eighty years of experience in textile processing, and their products are aimed at various industrial markets.

In the reporting period, the Valmiera Glass Group consisted of Valmieras stikla šķiedra JSC and its three subsidiaries: Valmiera Glass UK Ltd. in the United Kingdom and Valmiera Glass USA Corp. and Valmiera Glass USA Trading Corp. in the United States (hereinafter collectively referred to as 'the Group'). The various branches of the Group's core business are glass fiber research and development, and the manufacture and sale of glass fiber products. The Group is positioning itself in the market as a vertically integrated – from the manufacture of glass fiber to coated/impregnated textiles – supplier of various composite materials for the aviation industry, the building industry, and other manufacturing industries.

Valmieras stikla šķiedra JSC specializes in the manufacture of two different types of glass fiber (E-glass with a temperature resistance of 600°C and SiO<sub>2</sub>-glass with a temperature resistance of 1000+°C) and their products. These products are used for further processing, for technical insulation (electrical, thermal and sound) materials and as finished materials in mechanical engineering, construction, and elsewhere. . For 2016 it is planned to expand the range of glass fibre products, offering new products to the market from a unique and patented type of glass with heat stability 800°C. Thus the Group will be the only company in the world that can offer such a wide range of glass fibre products for the heat insulation market.

Valmiera Glass UK Ltd. manufactures glass fiber products for the aviation industry, thermal insulation, and architecture. Valmiera Glass USA Corp., in turn, has been manufacturing glass fiber products with high added value – non-woven materials – since February 2015.

### Sales

In the first six months of 2016, the Group has been successful in export markets and has met the manufacturing challenges. The key export markets have remained unchanged: European Union countries (75%), North America (13%), CIS countries (4%) and other countries (8%). A sales turnover increase is observed in the export market of the North America region.

From a product segment perspective, sales volumes have increased for high added-value products, such as high-concentration SiO<sub>2</sub> glass fibre products with temperature resistance 1000+°C and E-glass mats with temperature resistance to 600°C. In the first 6 months of 2016, the total sales of these products has grown by 37% on average compared to the same period in 2015. Sales in other product segments continue to be stable or slightly decreasing.

In the first half of 2016, regardless of intensive development of the global glass fibre market and growing demand for various glass fibre products, a slight reduction of the turnover of the Group was observed in comparison to the record numbers achieved in 2015. The decrease is related to

temporary and surmountable challenges in product manufacturing, which, in turn, made it impossible to completely fulfil the high demand for glass fibre products.

The parent company of the Group faced technical issues in the first half of 2016 and was forced to suspend the operation of one glass melting furnace for two weeks, afterwards resuming at 70% production capacity and planning for complete reconstruction of the furnace in August of the current year. After reconstruction of the furnace it will operate with 30% higher capacity.

### Employees

In the first three months of 2016, Valmiera Glass Group employed 1 155 employees on average, of which 979 have been employed in Valmieras stikla šķiedra JSC in particular. The subsidiaries Valmiera Glass UK Ltd. and Valmiera Glass USA Corp., in turn, employed an average of 131 and 45 persons respectively in the first three months of 2016.

### Investments

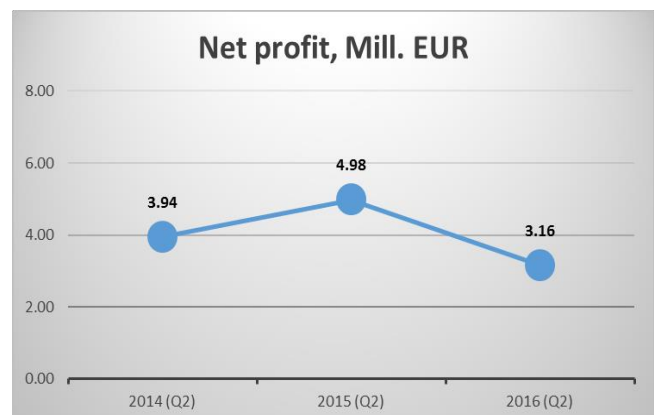
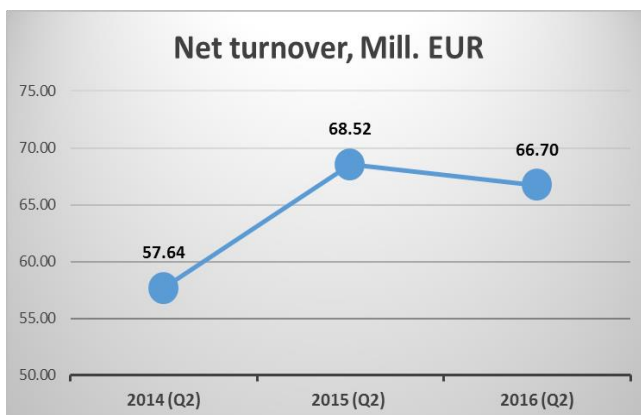
Investments in development of the Group made in the first half of 2016 amounted to 5.66 million EUR, which includes the purchase of new equipment, modernization of existing technical and technological solutions and new product development, with the aim of increasing the Group's production capacity. In total it is planned to invest 8.7 million EUR in development of the Group in 2016, excluding investments with regard to a production expansion project in USA, considering the transfer of the reconstruction of the glass fusion oven from the end of the year to August of the current year.

### Quality management

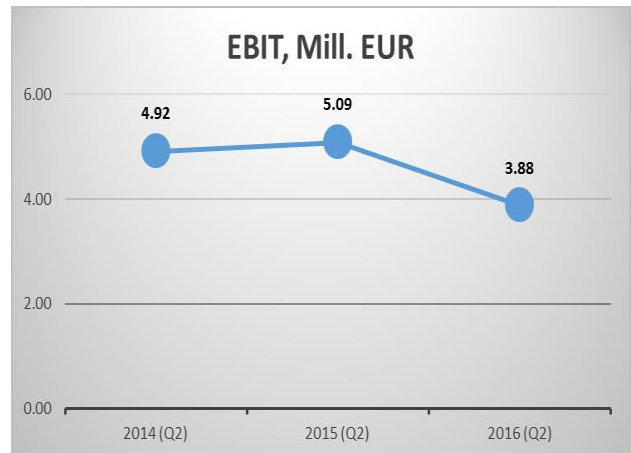
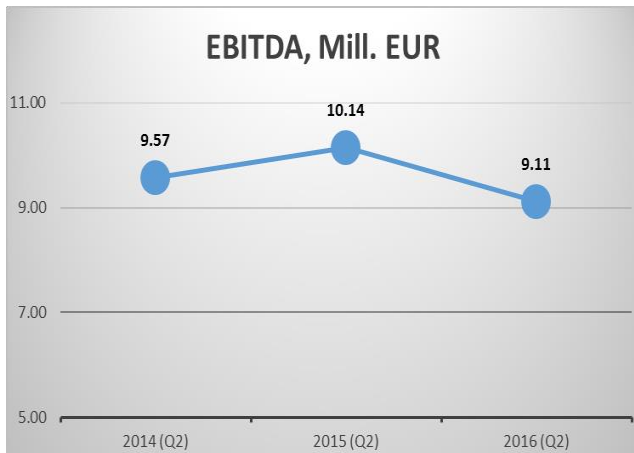
The quality management system of Valmieras stikla šķiedra JSC is certified in accordance with ISO 9001:2008 requirements. The German management systems certification company DQS GmbH performs certification of the company once per three years and supervisory audits once a year. The current quality management system compliance certificate was issued on 18 March 2015, and is valid until 15 March 2018.

### Financial results

With regard to the above mentioned technical problems in production, the consolidated turnover of the Group has reached 66.70 million EUR in the first half of 2016, which is 1.82 million EUR or 2.6% behind the net turnover reached by the Group during the first 6 months of 2015.

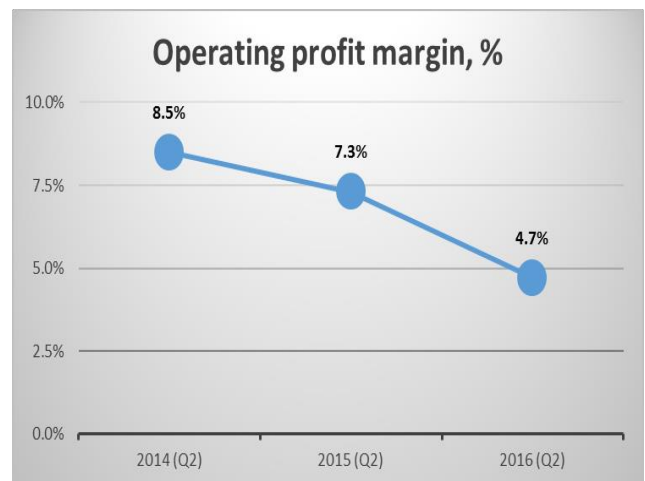
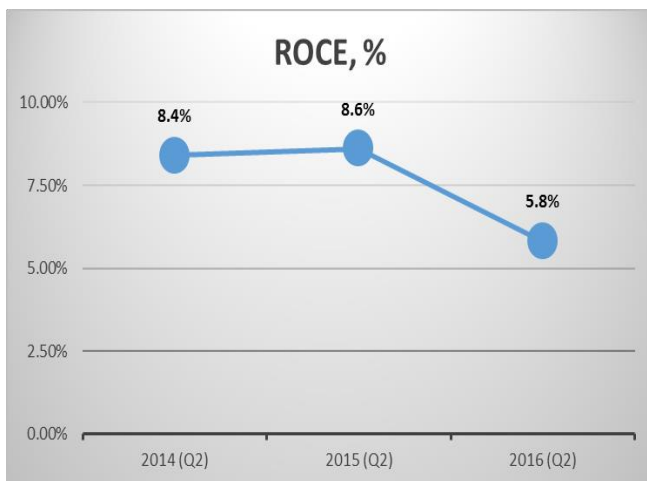


The consolidated net profit of the Group amounted to 3.16 million EUR in the first half of 2016, which, in turn, is 36.5% less in comparison with the net profit of the Group for the first half of 2015.



The consolidated operative profit (EBITDA) constituted 9.11 million EUR and was 10% or 1.03 million EUR less than in the respective period of 2015. Profit from commercial activity (EBIT) constituted 3.88 million EUR, which is 23.8% or 1.21 million EUR less than the indicator of the same period for 2015. Compared to 2015, in the first half of the year, profit from exchange rate fluctuations and revaluation of financial instruments has been reduced by EUR 200 000, as well as an allowance for deferred tax in the amount of EUR 400 000 has been established.

The consolidated capital return (ROCE) was - 5.8%, while the consolidated operating profit margin reached 4.7% in the first half of 2016.



There will be certain measures performed in the second half of 2016 in order to renew and increase the glass fibre production volume. On 2 August 2016 the reconstruction of the glass melting furnace will begin, and it is planned to resume operation of the furnace on 16 September 2016. Management of the Group expects that it will be possible to partially cover the loss of production during the May - August period.

Taking into account the above mentioned, the management of the Group forecasts a net turnover of the Group for 2016 in the amount of 134 up to 138 million EUR and net profit in the amount of 6.5 up to 7.5 million EUR.

## Share market

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

*The share price development of JSC Valmieras stikla šķiedra in period of 01.01.2016 to 30.06.2016  
Information from: AS „NASDAQ OMX Riga”, home page [www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)*



The Company's share price from January 1<sup>st</sup> 2016 till June 30<sup>th</sup> 2016 has decreased by EUR 0.05 or 1.47 %. The value of one share at January 1<sup>st</sup> 2016 was EUR 3.40 and on June 30<sup>th</sup> 2016 the price has decreased to EUR 3.35.

The number of shares sold in first six months 2016 is 119.39 Thousand and turnover of JSC Valmieras stikla šķiedra shares has reached EUR 413.1 Thousand.

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JSC "Valmieras stikla šķiedra"  
The Chairman of the Board  
Andre Heinz Schwiontek

July 29<sup>th</sup> 2016

## THE STATEMENT OF MANAGEMENT RESPONSIBILITY

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 June 30<sup>th</sup> 2016 and the results of its operations and cash flows for the period ended on June 30<sup>th</sup> 2016. The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments 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,

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JSC "Valmieras stikla šķiedra"  
The Chairman of the Board  
Andre Heinz Schwiontek

July 29<sup>th</sup> 2016



## BALANCE SHEET (ASSETS)

As at 30<sup>th</sup> June 2016 and December 31<sup>st</sup> 2015

	30.06.2016 EUR	31.12.2015 EUR
<b>AKTĪVS</b>		
Non-current assets		
Intangible assets		
Patents, licenses, trade mark and similar rights	707 568	602 275
Costs of establishment of intangible investments	129 753	107 912
Goodwill	3 964 028	4 463 886
<b>Total intangible assets</b>	<b>4 801 349</b>	<b>5 174 073</b>
<b>Tangible fixed assets</b>		
Land and buildings	17 720 054	17 396 474
Equipment and machinery	53 161 117	55 304 751
Other fixed assets	1 077 088	1 176 890
Constructions in progress	6 809 752	4 998 127
Advance payments for fixed assets	1 076 055	1 694 476
<b>Total fixed assets</b>	<b>79 844 066</b>	<b>80 570 718</b>
<b>Non-current financial investments</b>		
Deferred expenses	531 768	376 985
<b>Total non-current financial investments</b>	<b>531 768</b>	<b>376 985</b>
<b>Deferred tax assets</b>	<b>1 533 283</b>	<b>1 683 720</b>
<b>Total non-current assets</b>	<b>86 710 466</b>	<b>87 805 496</b>
<b>Current assets</b>		
<b>Inventory</b>		
Raw materials	12 575 816	11 463 320
Work in progress	3 227 547	4 099 538
Finished goods	11 804 501	14 806 715
Advance payments for inventories	460 962	392 581
<b>Total inventory</b>	<b>28 068 827</b>	<b>30 762 154</b>
<b>Accounts receivable</b>		
Trade receivables	16 919 945	9 661 318
Receivables from related parties	1 737 621	2 185 808
Other receivables	819 016	850 590
Deferred expenses	930 190	703 106
<b>Total accounts receivable</b>	<b>20 406 771</b>	<b>13 400 822</b>
<b>Cash and cash equivalents</b>	<b>1 910 197</b>	<b>1 200 204</b>
<b>Total current assets</b>	<b>50 385 795</b>	<b>45 363 180</b>
<b>TOTAL ASSETS</b>	<b>137 096 261</b>	<b>133 168 676</b>

## BALANCE SHEET (LIABILITIES)

As at June 30<sup>th</sup> 2016 and December 31<sup>st</sup> 2015

	30.06.2016 EUR	31.12.2015 EUR
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital	33 464 487	33 464 487
Foreign currency translation reserve	(81 142)	1 942 629
Other reserves	(565 034)	(951 732)
Retained earnings:		
a) Retained earnings	20 737 699	15 262 524
b) Current year profit	3 160 992	5 475 175
<b>Total shareholders' equity</b>	<b>56 717 001</b>	<b>55 193 083</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Due to credit institutions	27 487 897	29 598 475
Finance lease	88 481	134 711
Other borrowings	1 538 333	344 448
Deferred tax	2 032 991	1 668 561
Retirement benefit obligation	4 106 475	5 203 352
Deferred income	4 531 425	3 845 606
Embedded derivatives	699 992	764 506
<b>Total non-current liabilities</b>	<b>40 485 595</b>	<b>41 559 659</b>
<b>Current liabilities</b>		
Due to credit institutions	21 903 144	19 697 612
Finance lease	100 370	116 313
Other loans	192 373	-
Advance payments from customers	196 964	163 971
Trade payables	12 813 759	10 669 872
Payables related parties	475 597	683 826
Taxes and social security contributions	719 189	761 457
Other accounts payable	919 226	778 034
Accrued liabilities	1 096 241	1 937 297
Retirement benefit obligations	1 028 433	1 158 117
Deferred income	448 368	449 435
<b>Total current liabilities</b>	<b>39 893 665</b>	<b>36 415 934</b>
<b>Total liabilities</b>	<b>80 379 260</b>	<b>77 975 593</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>137 096 261</b>	<b>133 168 676</b>

## STATEMENT OF PROFIT AND LOSS

*For the period ended June 30<sup>th</sup> 2016 and December 31<sup>st</sup> 2015*

	<b>30.06.2016</b>	<b>30.06.2016</b>
	<b>EUR</b>	<b>EUR</b>
<b>Sales</b>	<b>66 699 909</b>	<b>68 518 828</b>
Change in inventories	(3 069 161)	(7 844 763)
Costs capitalized to non-current assets	119 037	-
Other operating income	663 946	1 833 252
Raw materials and consumables	(33 804 814)	(30 606 657)
Personnel expenses	(12 799 266)	(12 074 347)
Depreciation and amortization	(5 230 891)	(5 046 157)
Other operating expenses	(8 700 343)	(9 690 218)
<b>Operating profit</b>	<b>3 878 417</b>	<b>5 089 939</b>
Interest and similar income	357 077	760 750
Interest and similar expenses	(673 679)	(867 892)
<b>Profit from operations and before tax</b>	<b>3 561 815</b>	<b>4 982 797</b>
Corporate income tax	(400 823)	(144)
<b>NET PROFIT</b>	<b>3 160 992</b>	<b>4 982 653</b>
<b>Earnings per share</b>	<b>0.1322</b>	<b>0.2085</b>

## STATEMENT OF CASH FLOWS

	6 months 2016	6 months 2015
<b>OPERATING ACTIVITIES</b>		
Profit before tax	3 561 815	4 982 797
Adjustments:		
Change in fair value of embedded derivatives	(64 514)	(281 026)
Depreciation and amortization	5 230 891	5 046 157
Interest expenses	-	660
Financial income EU Funding / LIAA State support	673 679	867 892
<b>Changes in operating assets and liabilities:</b>		
Inventories	2 693 327	6 354 211
Accounts receivable and other assets	(7 160 733)	(12 863 454)
Accounts payable and other liabilities	(1 742 447)	1 390 598
<b>Cash provided by operating activities</b>	<b>2 854 301</b>	<b>5 235 003</b>
<b>Investing activities</b>		
Purchase of fixed and intangible assets	(4 041 298)	(9 663 274)
Income from disposal of fixed assets	-	5 837
Interest received	1 292	7 859
<b>Net cash used in investing activities</b>	<b>(4 040 006)</b>	<b>(9 649 578)</b>
<b>Financing Activities</b>		
Loans received	3 816 863	8 292 992
Loans paid	(4 502 701)	(4 394 811)
Credit line received	2 226 596	709 674
Finance lease paid	(62 173)	(84 910)
EU and state Grants received	1 090 793	418 337
Interest paid	(673 679)	(863 772)
<b>Net cash provided by financing activities</b>	<b>1 895 698</b>	<b>4 077 510</b>
<b>Net decrease / increase in cash and cash equivalents</b>	<b>709 993</b>	<b>(337 065)</b>
Cash and cash equivalents at the beginning of the year	1 200 204	1 179 230
<b>Cash and cash equivalents at the end of the year</b>	<b>1 910 197</b>	<b>842 165</b>

## STATEMENT OF SHAREHOLDERS' EQUITY

**As at June 30<sup>th</sup> 2016 and December 31<sup>st</sup> 2015**

	Share capital	Foreign currency reserve	Other reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
<b>As of 31<sup>st</sup> December 2014</b>	<b>33 464 487</b>	<b>675 927</b>	<b>(758 258)</b>	<b>18 073 541</b>	<b>51 455 697</b>
Profit of the financial period	-	-	-	5 475 175	5 475 175
Dividends paid	-	-	-	(2 811 017)	(2 811 017)
Other comprehensive income:					
<i>Remeasurement of defined benefit obligation</i>	-	-	(13 625)	-	(13 625)
<i>Deferred income tax relating to defined benefit obligation</i>	-	-	(179 849)	-	(179 849)
<i>Exchange differences on translating foreign operations</i>	-	1 266 702	-	-	1 266 702
<b>As of 31<sup>st</sup> December 2015</b>	<b>33 464 487</b>	<b>1 942 629</b>	<b>(951 732)</b>	<b>20 737 699</b>	<b>55 193 083</b>
Profit of the financial period	-	-	-	3 160 992	3 160 992
Dividends paid	-	-	-	-	-
Other comprehensive income:					
<i>Remeasurement of defined benefit obligation</i>	-	-	386 698	-	386 698
<i>Deferred income tax relating to defined benefit obligation</i>	-	(2 023 771)	-	-	(2 023 771)
<i>Exchange differences on translating foreign operations</i>	-	(971 487)	-	-	(971 487)
<b>As of June 30<sup>th</sup> 2016</b>	<b>33 464 487</b>	<b>(81 142)</b>	<b>(565 034)</b>	<b>23 898 691</b>	<b>56 717 001</b>

## ANNEX

### 1. SHARE CAPITAL

The registered share capital of JSC "Valmieras stikla šķiedra" as at June 30<sup>th</sup> 2016 is EUR 33 464 487. The company's paid share capital registered with the Enterprise Register as at June 30<sup>th</sup> 2016 is EUR 33 464 487, consisting of 23 897 455 ordinary shares with voting rights. The nominal value of each share is EUR 1.40.

As at June 30<sup>th</sup> 2016 and June 30<sup>th</sup> 2015 the shareholders of the JSC Valmieras stikla šķiedra, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	<b>6 months 2016</b>	<b>6 months 2015</b>
VitruLAN 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%
Preiss-Daimler Beatrix	5,36%	5,36%
Other	8,44	8,44
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### 2. INFORMATION CONCERNING THE PROFIT OR LOSS ACCOUNT

	<b>6 months 2016</b>	<b>6 months 2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>2.1. Material expenses</b>		
Raw materials	24 810 316	19 303 573
Natural gas	1 885 861	2 551 345
Electricity	3 621 147	3 535 979
Ore processing costs	348 207	281 398
Oxygen	406 309	418 421
Other	2 732 975	4 515 940
<b>Total</b>	<b>33 804 814</b>	<b>30 606 657</b>
<b>2.2. Personnel expenses</b>		
Salaries	9 294 815	8 114 801
Social security payments	1 911 530	1 655 158
Illness and vacation expenses	847 712	674 637
Provisions for remuneration of Board and Council	290 000	517 000
Insurance of employees	114 627	113 769
Other	340 582	998 982
<b>Total</b>	<b>12 799 266</b>	<b>12 074 347</b>

	EUR	EUR
<b>2.3. Depreciation and amortization</b>		
Fixed asset depreciation	4 968 895	4 794 107
Depletion of ore	220 883	196 752
Intangible asset amortization	41 113	55 298
<b>Total</b>	<b>5 230 891</b>	<b>5 046 157</b>
<b>2.4. Other operating expenses</b>		
Transportation	3 936 827	4 214 727
Sales commission	786 251	1 124 552
Service costs	714 266	1 149 652
Spare parts	729 786	702 297
Repair expenses	249 250	255 906
Business trips	283 843	275 487
Training and qualification of employees	409 979	500 070
Insurance	138 802	128 427
Leasing	175 439	243 094
Research and development expenses	188 596	-
Property tax	96 902	108 466
Communications	313 263	391 643
Selling expenses	23 987	77 043
Office expenses	152 638	130 026
Labor safety and specific clothing	112 668	112 815
Audit fees	11 557	-
Increase in doubtful debts	(11 337)	16 819
Other	387 627	259 195
<b>Total</b>	<b>8 700 343</b>	<b>9 690 218</b>

### 3. RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

	30.06.2016 EUR	30.12.2015 EUR
P-D Glasseiden Oschatz GmbH	1 196 641	1 391 883
P-D Tafneft Fiberglas Alabuga	25 422	157 108
P-D Industriegesellschaft GmbH Bratendorf	216 000	385 930
P-D Interglas Technologies GmbH	19 859	5 425
Preis Daimler FibreGlass AB	117 316	73 436
P-D Management Industries GmbH	6 068	-
Vitrolan Textile Glass GmbH GmbH	83 988	15 696
Vitrolan Technical Textiles GmbH	72 327	156 330
Other trade receivables	17 378 331	10 131 041
Increase in doubtful debts	(458 386)	(469 723)
<b>Total</b>	<b>18 657 566</b>	<b>11 847 126</b>

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For information stated in this financial report please contact:

**Marika Nīmante**

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