

JOINT STOCK COMPANY „VALMIERAS STIKLA ŠĶIEDRA”

Registration Number 40003031676

Financial Report for the period ended September 30th 2016

UNAUDITED

Made in accordance with the International
Financial Reporting Standards



VALMIERA GLASS®

Valmiera
2016

IT'S MORE THAN JUST GLASS

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> 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 st 2016 – September 30 th 2016
Companies included in consolidation:	Valmiera Glass UK Ltd (100% shares) P-D Valmiera Glass USA Corp (67% shares) Valmiera Glass Trading USA Corp (100% shares)

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MANAGEMENT REPORT

Type of Business Activity

Valmieras stikla šķiedra JSC and its subsidiaries (hereinafter – Valmiera Glass Group or the Group) is one of the leading glass fibre manufacturers in Europe with more than 80 years of experience in textile processing and more than 50 years of experience in glass fibre production. Valmiera Glass Group's core business areas are glass fibre research, glass fibre product development, production and trade.

During the reporting period Valmiera Glass Group consisted of the holding company Valmieras stikla šķiedra JSC and its subsidiaries Valmiera Glass UK Ltd. in the United Kingdom, P-D Valmiera Glass USA Corp. (formerly – Valmiera Glass USA Corp.) and Valmiera Glass USA Trading Corp. in the United States of America. During the reporting period Valmiera Glass USA Corp. changed its name to "P-D Valmiera Glass USA Corp." based on the concluded agreement from September 12, 2016, for selling 33% of Valmiera Glass USA Corp. shares to P-D Management Industries-Technologies GmbH. The mentioned transaction was aimed at attracting P-D Industries-Management Technologies GmbH as an investor for further development of the American factory in relation to the next investment phase of the company.

Valmiera Glass Group is the only group in the world with a vertically integrated structure and a wide range of glass fibre products for the thermal insulation market with a temperature resistance up to 1250°C.

The Group's holding company Valmieras stikla šķiedra JSC specializes in manufacturing of glass fibre and glass fibre products using three different types of glass: E-glass with a temperature resistance of 600° C, HR-glass with a temperature resistance of 800°C and SiO₂-glass with a temperature resistance of 1000+°C. The glass fibre production of Valmieras stikla šķiedra JSC is used for further processing, in technical (electrical, thermal and acoustic) insulation materials and as finished materials in mechanical engineering, construction, and elsewhere.

The subsidiary Valmiera Glass UK Ltd. produces glass fibre products for the aviation industry, thermal insulation and architecture, while P-D Valmiera Glass USA Corp. produces non-woven glass fibre materials or glass fibre mats, which are most commonly used as thermal and acoustic insulation materials in the automotive industry, shipbuilding, power plants, construction, in production of household appliances, etc.

Production Markets

Within the previous 9 months of 2016, the Group successfully continued to strengthen its position in export markets. 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 SiO₂ glass fibre products with temperature resistance of 1000+°C and E-glass mats with temperature resistance of 600°C. In the previous 9 months of 2016, the total sales of these products has grown by 33% on average compared to the same period in 2015. The other segments of product sales were marked by stability or decrease, which was related to the reconstruction of the glass melting furnace in Valmieras stikla šķiedra JSC.

Employees

Within the first three quarters of 2016, the Valmiera Glass Group employed 1152 employees, of which the number of employees employed by Valmieras stikla šķiedra JSC alone was 974. The subsidiary company Valmiera Glass UK Ltd., during a period of 9 months in 2016, employed 133 employees on average, and the subsidiary P-D Valmiera Glass USA Corp., - 45 employees.

Investments

During a period of 9 months in 2016, EUR 11.55 million were invested in the Group's development. These investments were related to the purchase of new equipment, the modernization of the existing technical and technological solutions, and the development of new products with the aim of increasing the Group's production capacity.

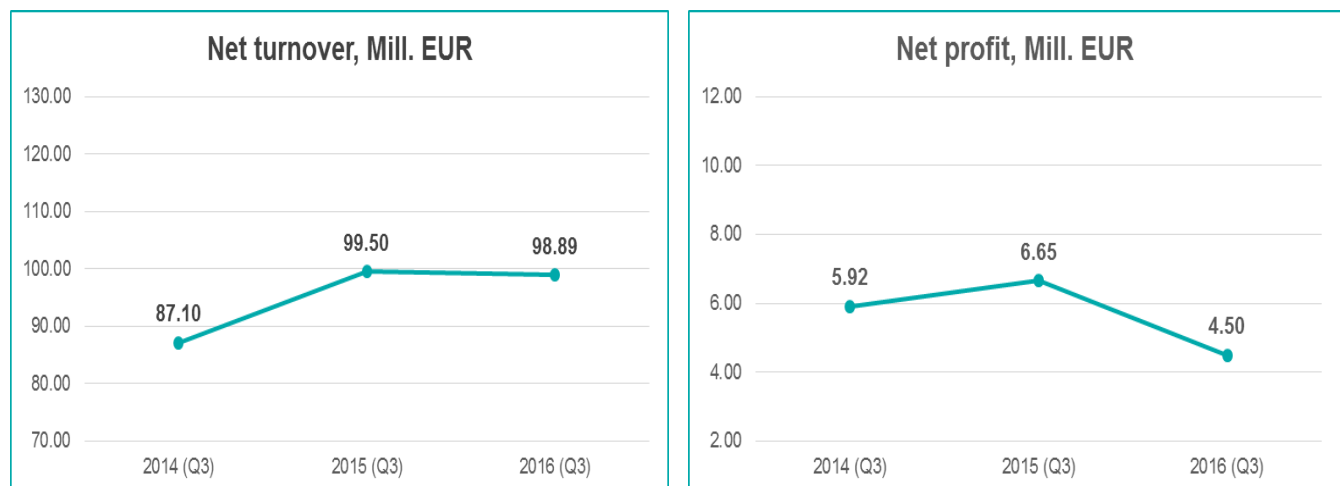
In the 3rd quarter of 2016, two major investment projects were implemented at the Group's parent company Valmieras stikla šķiedra JSC in order to increase the company's production capacity and its ability to meet the market's growing demand for glass fibre products. One glass-melting furnace has been reconstructed, which now operates with an additional 30% production capacity, and a new glass-melting furnace has been constructed for the production of a patented type of glass (HR-glass - heat resistant up to 800° C), which is unique worldwide and expands the company's portfolio of products for the heat insulation market. Both furnaces have been producing glass since September in the amounts planned for in the budget.

Thanks to these investments, it is expected that in the coming months and in future production levels will grow and that the forecasted sales figures will be reached by the end of the year, which is clear from the increased sales volumes in September and October of this year.

Financial results

The consolidated turnover of the Group has reached 98.89 million EUR in the first 9 months of 2016, which remains the same level as in the first 9 months in 2015.

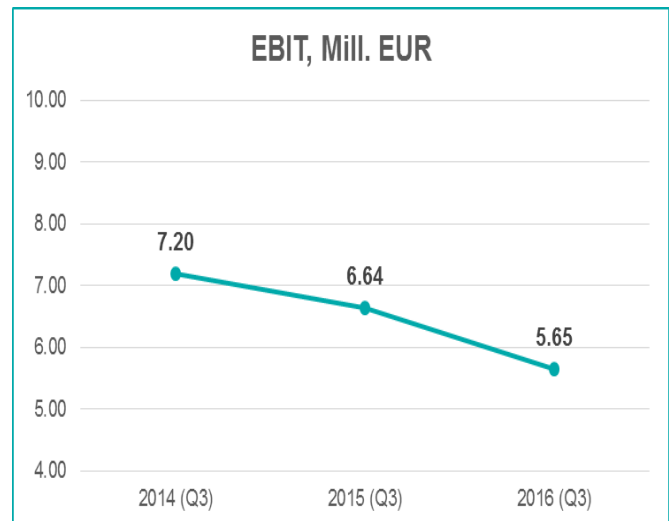
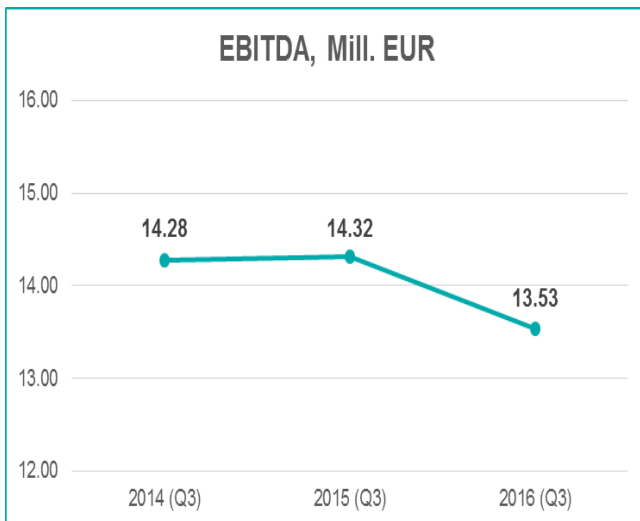
The consolidated net profit of the Group amounted to 4.50 million EUR in the first 9 months of 2016, which, in turn, is 32% less in comparison with the net profit of the Group for the first nine months of 2015.



The consolidated operative profit (EBITDA) constituted 13.53 million EUR and was 6% less than in the respective period of 2015.

Profit from commercial activity (EBIT) constituted 5.65 million EUR, which is 15% less than the indicator of the same period for 2015.

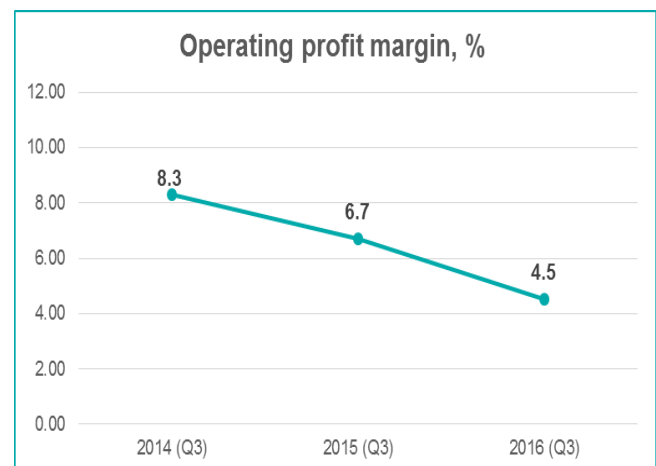
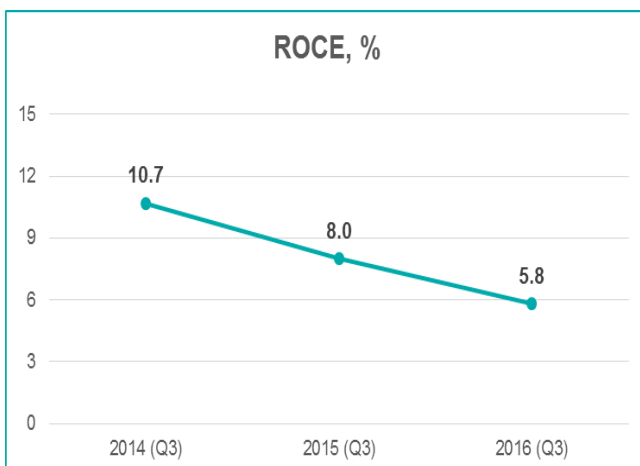
In comparison with the same 9 months in 2015, the profit from exchange rate fluctuations and revaluation of financial instruments was lower, and the reserves for deferred tax were increased by EUR 545,000.



The decrease in operating profit can be explained by the fact that, during the second and third quarters of 2016, the Group's parent company faced situations in its production that required the rebuilding of one of its glass-melting furnaces. This prevented the company from producing the necessary volume of products within a certain period of time, as a result of which it had to compensate for the amount of glass fiber that was lacking by purchasing products elsewhere. The reconstruction of the furnace was completed by the end of the reporting period, and its capacity is now 30% greater than before. The Group's management expects that, as production capacity increases up until the end of 2016, it will be possible to partially compensate for the loss of production in the May-August period and to achieve the planned operating profit.

Another reason for the decrease in net profit is the deferred corporate income tax stemming from investments in the Group's development in recent years.

The consolidated capital return (ROCE) was - 5.8%, while the consolidated operating profit margin reached 4.5% in the first nine months of 2016.



Taking into account the above mentioned, the Group's management forecasts the Net turnover from EUR 134 to EUR 138 and the net profit from EUR 6.0 to 7.0 million.

Share market

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

*The share price development of JSC Valmieras stikla šķiedra in period of 01.01.2016 to 30.09.2016
Information from: AS „Nasdaq Riga”, home page www.nasdaqbaltic.com*



The Company's share price from January 1st 2016 till September 30th 2016 has decreased by EUR 0.10 or 2.94 %. The value of one share at January 1st 2016 was EUR 3.40 and on September 30th 2016 the price has decreased to EUR 3.30.

The number of shares sold in first 9 months 2016 is 159.15 Thousand and turnover of JSC Valmieras stikla šķiedra shares has reached EUR 547.80 Thousand.

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

October 28th 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 September 30th 2016 and the results of its operations and cash flows for the period ended on September 30th 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,

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

October 28th 2016

BALANCE SHEET (ASSETS)

As at 30th September 2016 and December 31st 2015

AKTĪVS	30.09.2016	31.12.2015
	EUR	EUR
Non-current assets		
Intangible assets		
Patents, licenses, trade mark and similar rights	703 626	602 275
Costs of establishment of intangible investments	150 089	107 912
Goodwill	3 805 058	4 463 886
Total intangible assets	4 658 773	5 174 073
Tangible fixed assets		
Land and buildings	17 329 423	17 396 474
Equipment and machinery	51 745 180	55 304 751
Other fixed assets	1 042 520	1 176 890
Constructions in progress	11 641 057	4 998 127
Advance payments for fixed assets	1 556 031	1 694 476
Total fixed assets	83 314 211	80 570 718
Non-current financial investments		
Deferred expenses	556 343	376 985
Total non-current financial investments	556 343	376 985
Deferred tax assets	1 485 841	1 683 720
Total non-current assets	90 015 168	87 805 496
Current assets		
Inventory		
Raw materials	13 031 363	11 463 320
Work in progress	3 891 322	4 099 538
Finished goods	10 658 080	14 806 715
Advance payments for inventories	194 892	392 581
Total inventory	27 775 658	30 762 154
Accounts receivable		
Trade receivables	15 872 836	9 661 318
Receivables from related parties	2 343 153	2 185 808
Other receivables	786 680	850 590
Deferred expenses	979 489	703 106
Total accounts receivable	19 982 158	13 400 822
Cash and cash equivalents	3 295 704	1 200 204
Total current assets	51 053 521	45 363 180
TOTAL ASSETS	141 068 688	133 168 676

BALANCE SHEET (LIABILITIES)

As at September 30th 2016 and December 31st 2015

	30.09.2016 EUR	31.12.2015 EUR
LIABILITIES & SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	33 464 487	33 464 487
Foreign currency translation reserve	(288 544)	1 942 629
Other reserves	(798 702)	(951 732)
Retained earnings:		
a) Retained earnings	21 000 805	15 262 524
b) Current year profit	4 385 148	5 475 175
Share of minority stockholders	1 035 509	-
Total shareholders' equity	58 798 703	55 193 083
Liabilities		
Non-current liabilities		
Due to credit institutions	28 645 373	29 598 475
Finance lease	76 793	134 711
Other borrowings	1 530 201	344 448
Deferred tax	2 261 679	1 668 561
Retirement benefit obligation	3 694 997	5 203 352
Deferred income	4 712 827	3 845 606
Embedded derivatives	585 969	764 506
Total non-current liabilities	41 507 839	41 559 659
Current liabilities		
Due to credit institutions	20 579 996	19 697 612
Finance lease	83 055	116 313
Other loans	191 355	-
Advance payments from customers	243 279	163 971
Trade payables	14 569 972	10 669 872
Payables related parties	283 924	683 826
Taxes and social security contributions	662 103	761 457
Other accounts payable	891 120	778 034
Accrued liabilities	1 822 070	1 937 297
Retirement benefit obligations	987 190	1 158 117
Deferred income	448 083	449 435
Total current liabilities	40 762 147	36 415 934
Total liabilities	82 269 986	77 975 593
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	141 068 688	133 168 676

STATEMENT OF PROFIT AND LOSS

For the period ended September 30th 2016 and September 30th 2015

	30.09.2016	30.09.2015
	EUR	EUR
Sales	98 886 774	99 501 136
Change in inventories	(3 097 485)	(9 854 064)
Costs capitalized to non-current assets	166 507	-
Other operating income	1 092 225	2 859 410
Raw materials and consumables	(50 349 231)	(45 467 767)
Personnel expenses	(19 389 617)	(18 330 719)
Depreciation and amortization	(7 877 547)	(7 676 600)
Other operating expenses	(13 777 593)	(14 391 149)
Operating profit	5 654 034	6 640 248
Interest and similar income	597 951	1 112 350
Interest and similar expenses	(986 554)	(1 325 645)
Profit from operations and before tax	5 265 431	6 426 953
Corporate income tax	770 273	224 760
NET PROFIT	4 495 159	6 651 713
Earnings per share	0.1881	0.2783

STATEMENT OF CASH FLOWS

	9 months 2016	9 months 2015
OPERATING ACTIVITIES		
Profit before tax	5 265 431	6 426 953
Adjustments:		
Change in fair value of embedded derivatives	(178 537)	(387 107)
Depreciation and amortization	7 877 547	7 676 600
Loss /(gain) from disposal of fixed assets	-	(5 339)
Interest expenses	986 554	1 325 645
Interest income	(4 098)	(7 615)
Financial income EU Funding / LIAA State support	(470 039)	(535 147)
Changes in operating assets and liabilities:		
Inventories	2 986 496	9 153 342
Accounts receivable and other assets	(5 572 090)	(11 115 936)
Accounts payable and other liabilities	(1 100 075)	(675 708)
Cash provided by operating activities	9 791 190	11 855 688
Investing activities		
Purchase of fixed and intangible assets	(9 413 359)	(13 091 233)
Income from disposal of fixed assets	-	21 963
Interest received	4 098	7 615
Net cash used in investing activities	(9 409 261)	(13 061 655)
Financing Activities		
Dividends paid	-	(2 811 626)
Loans received	7 233 077	10 059 534
Loans paid	(6 754 523)	(5 735 430)
Credit line received	909 086	1 106 889
Finance lease paid	(91 176)	(115 408)
EU and state Grants received	1 403 663	835 740
Interest paid	(986 554)	(1 325 645)
Net cash provided by financing activities	1 713 572	2 014 054
Net decrease / increase in cash and cash equivalents	2 095 500	808 087
Cash and cash equivalents at the beginning of the year	1 200 204	1 179 230
Cash and cash equivalents at the end of the year	3 295 704	1 987 317

STATEMENT OF SHAREHOLDERS' EQUITY

As at September 30th 2016 and December 31st 2015

	Share capital	Foreign currency reserve	Other reserves	Retained earnings	Share of minority stockholders	Total
	EUR	EUR	EUR	EUR	EUR	EUR
As of 31st December 2014	33 464 487	675 927	(758 258)	18 073 541	-	51 455 697
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
As of 31st December 2015	33 464 487	1 942 629	(951 732)	20 737 699	-	55 193 083
Profit of the financial period	-	-	-	3 160 992	-	3 160 992
Dividends paid	-	-	-	-	1 035 509	-
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)	-	-	1 035 509	(971 487)
As of September 30th 2016	33 464 487	(81 142)	(565 034)	23 898 691		56 717 001

ANNEX

1. SHARE CAPITAL

The registered share capital of JSC "Valmieras stikla šķiedra" as at September 30th 2016 is EUR 33 464 487. The company's paid share capital registered with the Enterprise Register as at September 30th 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 September 30th 2016 and September 30th 2015 the shareholders of the JSC Valmieras stikla šķiedra, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	9 months 2016	9 months 2015
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%
Total	100.0%	100.0%

2. INFORMATION CONCERNING THE PROFIT OR LOSS ACCOUNT

	9 months 2016	9 months 2015
	EUR	EUR
2.1. Material expenses		
Raw materials	36 868 606	30 706 534
Natural gas	2 601 470	3 583 693
Electricity	5 181 244	5 429 935
Ore processing costs	467 854	437 203
Oxygen	559 177	631 534
Other	4 670 880	4 678 869
Total	50 349 231	45 467 767
2.2. Personnel expenses		
Salaries	13 822 200	12 483 968
Social security payments	2 886 209	2 519 456
Illness and vacation expenses	1 492 681	1 256 254
Provisions for remuneration of Board and Council	460 000	517 000
Insurance of employees	197 579	179 615
Other	530 947	1 374 425
Total	19 389 617	18 330 719

EUR

EUR

2.3. Depreciation and amortization

Fixed asset depreciation	7 491 187	7 276 818
Depletion of ore	322 081	311 426
Intangible asset amortization	64 279	88 356
Total	7 877 547	7 676 600

2.4. Other operating expenses

Transportation	6 315 334	6 336 247
Sales commission	1 139 918	1 582 458
Service costs	1 243 947	1 573 397
Spare parts	1 101 779	1 093 812
Repair expenses	412 303	346 056
Insurance	428 123	447 053
Business trips	553 465	780 234
Training and qualification of employees	373 392	359 006
Labor safety and specific clothing	216 429	185 530
Research and development expenses	218 940	348 422
Communications	153 880	167 650
Leasing	553 974	589 497
Office expenses	41 521	124 395
Selling expenses	189 799	152 252
Property tax	165 574	170 508
Increase in doubtful debts	12 796	16 819
Other	656 420	117 814
Total	13 777 593	14 391 149

3. RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

	30.09.2016 EUR	30.12.2015 EUR
P-D Glasseiden Oschatz GmbH	890 992	1 391 883
P-D Tafneft Fiberglas Alabuga	-	157 108
P-D Industriegesellschaft GmbH Bratendorf	95 684	385 930
P-D Interglas Technologies GmbH	7 555	5 425
P-D Management Industries-Technologies GmbH	1 191 313	-
Preiss-Daimler FibreGlass AB	74 375	73 436
Vitrolan Textile Glass GmbH GmbH	12 275	15 696
Vitrolan Technical Textiles GmbH	70 959	156 330
Other trade receivables	16 487 129	10 131 041
Increase in doubtful debts	(614 293)	(469 723)
Total	18 215 989	11 847 126

For information stated in this financial report please contact:

Marika Nīmante

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