

JOINT STOCK COMPANY „VALMIERAS STIKLA ŠĶIEDRA”

Registration Number 40003031676

UNAUDITED
INTERIM CONSOLIDATED FINANCIAL REPORT
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2017

Made in accordance with the International
Financial Reporting Standards



VALMIERA GLASS®

VALMIERA | 2017

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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, 30 September 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 Stefan Jugel
The council:	<i>Chairman of the Council:</i> Heinz-Jürgen Preiss-Daimler <i>Council members:</i> Hans Peter Cordts Frank Wilhelm Behrends Jöran Pfuhl Andris Oskars Brutāns
The period of the report:	1 January 2017 – 30 June 2017
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 fiberglass 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. (former – Valmiera Glass USA Corp.) and Valmiera Glass USA Trading Corp. in the United States. In 2016, the Valmiera Glass USA Corp. changed its name to “P-D Valmiera Glass USA Corp.” based on the concluded agreement from 12 September 2016, for selling 33% of Valmiera Glass USA Corp. shares to P-D Management Industries-Technologies GmbH. The aim of the said transaction was to acquire P-D Management Industries-Technologies GmbH as an investor for the further development of the US production plant in connection with the next stage of investments in 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 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 fiberglass 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 mat, which are most commonly used as thermal and acoustic insulation materials in the automotive industry, shipbuilding, power plants, construction, production of household appliances, etc.

Quality Management

All the companies of the Valmiera Glass Group operate in accordance with the Quality Management System Standard ISO 9001. The parent company of Valmiera Glass Group, Valmieras stikla šķiedra JSC, is certified in accordance with the requirements of Energy Management Standard ISO 50001 and Environment Management Standard ISO 14001:2004.

Markets

In the first 6 months of 2017, products made by Valmieras stikla šķiedra JSC were exported to 42 countries around the world, with its export volume reaching 97%. In the first half of 2017, the Group continued to strengthen its positions in the existing markets. The key export markets of

the products remained unchanged: European Union countries (76%), North America (13%), CIS (4%) and other export countries (7%).

From a product segment perspective, sales have increased for high added-value products, such as high-concentration SiO₂ glass fibre products with heat resistance of 1000+°C and E-glass fabrics with heat resistance of 600°C. In the first half year 2017, on average, the sales of these products grew by 12% compared to the same period in 2016. For other product segments the sales amount is valued as stable or with a small growth.

Employees

In first 6 months 2017, the Valmiera Glass Group employed on average 1308 employees, of which the average number of employees employed by Valmieras stikla šķiedra JSC alone was 1114. In some period the subsidiary company Valmiera Glass UK Ltd. employed on average 144 employees, and the subsidiary P-D Valmiera Glass USA Corp. had on average 50 employees.

Investments

The main focus of the investment activity of the first half year 2017 was the provision of the own funds for the financing of the project in the USA. As budgeted at the Valmiera and Sherborne sites, only maintenance investments or investments in the stabilization of glass production were carried out.

Thus, at the Valmiera site, the melting capacity of silica glass was increased and measures were taken to achieve the full melting capacity of the glass melting furnace 1.2.

The large-scale project in the USA, which began in 2016, was continued on schedule. Both the project costs and the project schedule are in budget. The building has been built around 50% and the first installation work for the equipment and the technology has started according to the project plan.

The focus of the project work of the next months will be dedicated to the budget maintenance of the necessary professional staff. Since June, the first American employees in the field of glass melting and maintenance have been trained in our Latvian plant. These employees have previously had several months' training in the technical college in Dublin/GA.

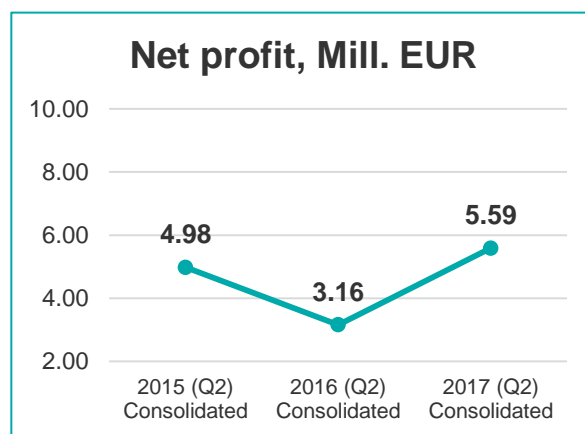
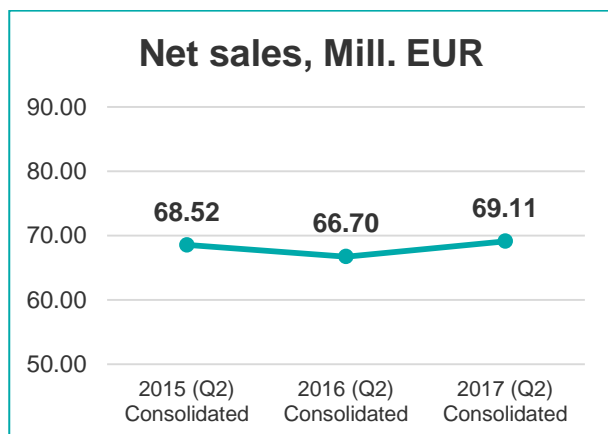
After several months of negotiations, on 27.03.2017 a financing contract EUR 52 million with the two Latvian banks for the investment project was concluded. As of June 30, 2017, the first stage of the equity contribution of EUR 15.5 million was provided, so that on 13.07.2017 the first disbursement of the loan was carried out.

With this loan agreement, the company has also committed itself to new covenants, which also apply to existing financing agreements in Latvia.

The largest investment project in the history of Valmieras stikla šķiedra JSC was initiated – the expansion of US-based manufacturing facility. Until 2022, it is expected to create 425 new job places and to invest 80 million EUR from our own financial resources by also attracting loans from banks. The expansion will enable the Group to acquire even greater manufacturing capacity and stability, and to increasingly successfully meet the growing market demand for glass fibre products.

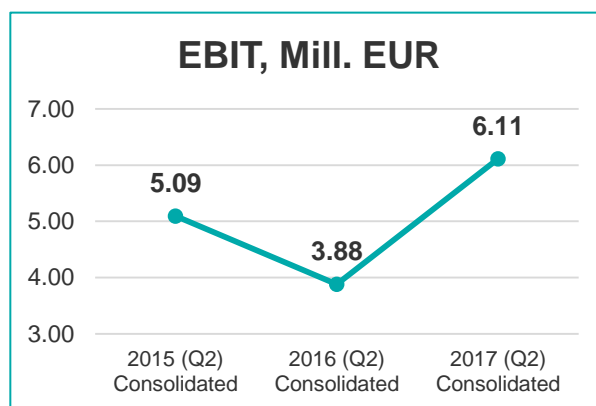
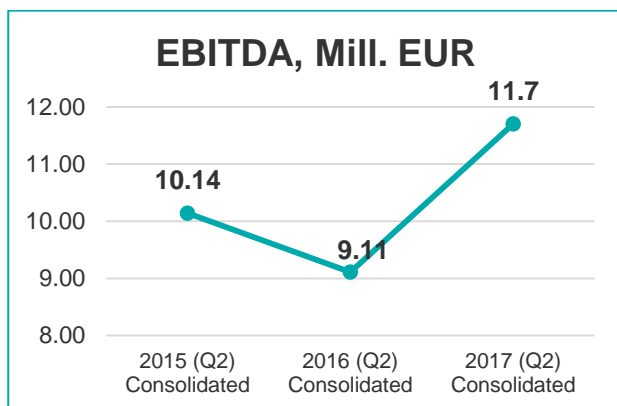
Financial results

The consolidated net sales of the Group in the first half year 2017 has reached EUR 69.11 Million. Compared to the EUR Mill. 66,7 the same period 2016 it remain on the same high level, given the strong performance of sales in all principal markets and the limitation of sales growth through limited production capacities up to the commissioning of the melting plant in the USA.



The consolidated operating profit (EBITDA) was EUR 11.7 Million, which is EUR 2.6 Million or 28% higher than in the first half year 2016. The EBITDA margin increased as well to 17.5% from 14% in 2016.

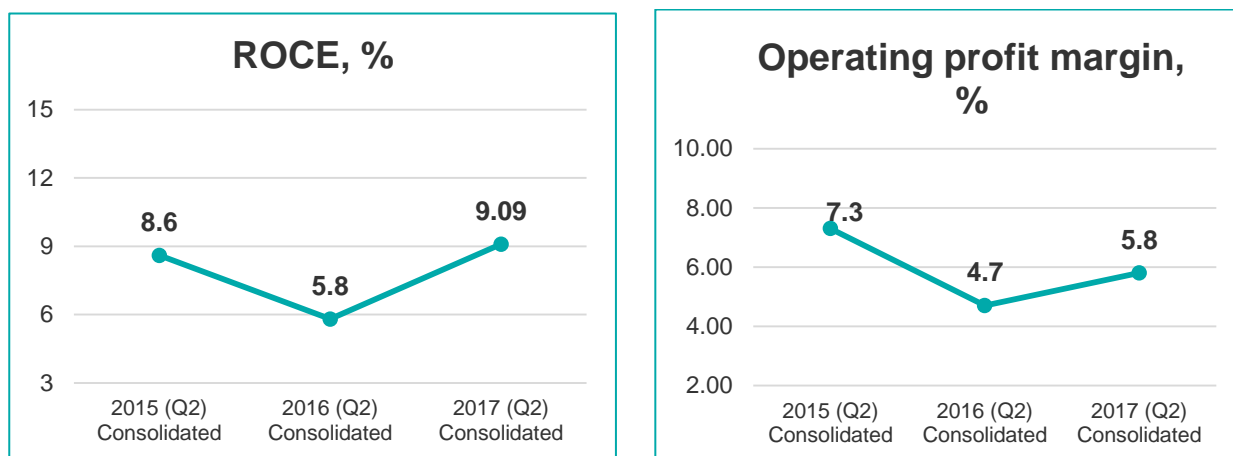
The earnings before interest and taxes (EBIT) reached EUR 6.11 Million which is EUR 2.23 Million or 57% more than in the first 6 month 2016.



The consolidated operating profit margin ratio by end of June 2017 was 8.7%

Consolidated Pre-tax profit of the reporting period reached EUR 6.03 Million marking as well significant growth of EUR 2.47 million from EUR 3.56 million in same time 2016.

The consolidated return on capital (ROCE) of the first 6 month 2017 is 9.09% whereas the consolidated operating profit margin ratio of six month 2016 was 5.8%.



The consolidated net profit of the Group by end of June 2017 was EUR 5.59 million, or EUR 2.43 million more compared to the unaudited net profit of the Group of the same period in 2016.

The significant higher profit compared to 2016 is the result of higher production output of four furnaces, sales price increments and positive currency exchange rates.

Considering the ongoing positive growth trends in the global glass fibre market, the stable capacity of the world's fibreglass industry, and the notably high demand for glass fibre products, the management of the joint stock company predicts that the Group's consolidated net sales in 2017 will reach EUR 130 million, and the consolidated net profit of EUR 9.0 million.

The achievement of these results for fiscal year 2017 depends on the full utilisation of the production capacities of the melting furnaces, a stable sales at a high level at all sites and a flexible cost adjustment of material costs and personnel costs to the total output. For this purpose, the management has launched appropriate programs and projects.

Stock Market

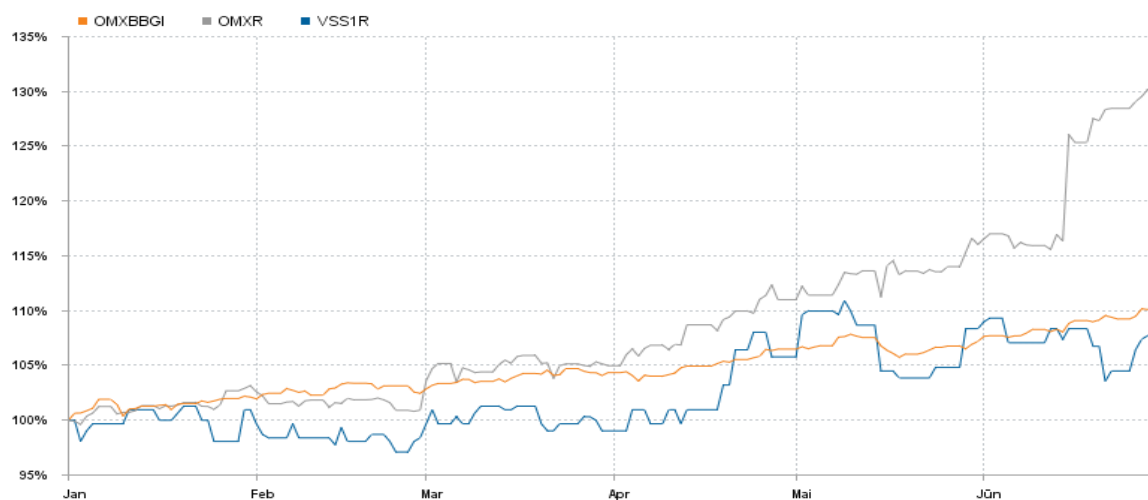
The shares of Valmieras stikla šķiedra JSC have been listed on the Nasdaq Riga Secondary List since 24 February 1997.

Valmieras stikla šķiedra JSC share price development in the first half year 2017 (data of Nasdaq Riga)



During the first half year of 2017, the share price grew by 5.47%. In the reporting period, the share price fluctuated between EUR 2.92 (lowest share price) and EUR 3.45 (highest share price). In this period, the average share price was EUR 3.19.

Valmieras stikla šķiedra JSC share price in the first half year 2017 in comparison with OMX Baltic Benchmark GI and OMX Riga index (data Nasdaq Riga)



The number of shares traded during the first 6 months of 2017 exceeded 128 thousand, and the turnover of shares of Valmieras stikla šķiedra JSC reached EUR 0.41 million. During the reporting period, 425 transactions were made with shares of Valmieras stikla šķiedra JSC.

Valmieras stikla šķiedra JSC
The Chairman of the Board
Andre Heinz Schwiontek
28 July 2017

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 30 June 2017 and the results of its operations and cash flows for the period ended on 30 June 2017. 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.

The Financial Statements were confirmed by the Board of Valmieras stikla šķiedra JSC, the parent company of the Valmiera Glass Group, these were signed on behalf of the Board by:

Valmieras stikla šķiedra JSC
The Chairman of the Board
Andre Heinz Schwiontek
28 July 2017

BALANCE SHEET (ASSETS)

As at 30 June 2017 and 31 December 2016

	30.06.2017 EUR	31.12.2016 EUR
ASSETS		
Non-current assets		
Intangible assets		
Software licenses, patents, trademarks and other rights	878 866	869 605
Goodwill	3 725 870	3 826 612
Total intangible assets	4 604 736	4 696 217
Tangible assets		
Land and buildings	16 490 809	17 243 174
Equipment and machinery	57 722 156	60 432 169
Other fixed assets	1 078 035	1 158 916
Constructions in progress	15 503 041	5 952 882
Advance payments for fixed assets	2 498 096	348 704
Total tangible assets	93 292 137	85 135 845
Non-current financial investments		
Deferred expenses	217 361	235 322
Total non-current financial investments	217 361	235 322
Deferred tax assets	1 853 825	1 923 581
Total non-current assets	99 968 059	91 990 965
Current assets		
Inventories		
Raw materials	10 741 520	10 480 108
Work in progress	5 134 460	5 101 281
Finished goods	12 066 079	1 095 254
Advance payments for inventories	162 854	300 804
Total inventories	28 104 913	32 977 447
Accounts receivable		
Trade receivables	15 883 329	10 118 616
Receivables from related parties	1 246 234	971 132
Other receivables	6 056 734	1 057 173
Deferred expenses	1 056 945	788 515
Total accounts receivable	24 243 241	12 935 436
Cash and cash equivalents	1 160 799	2 958 952
Total current assets	53 508 953	48 871 835
TOTAL ASSETS	153 477 012	140 862 800

BALANCE SHEET (LIABILITIES)

As at 30 June 2017 and 31 December 2016

	30.06.2017	31.12.2016
	EUR	EUR
EQUITY AND LIABILITIES		
Equity		
Share capital	33 464 487	33 464 487
Foreign currency translation reserve	(1 838 909)	(257 191)
Other reserves	(3 418 157)	(3 418 157)
Retained earnings:		
a) Retained earnings	24 044 472	19 237 518
b) Profit of the year	5 210 520	4 806 954
Total equity attributable to owners of the Company	57 462 413	53 833 610
Non-controlling interest	8 381 919	1 056 658
Total equity	65 844 332	54 890 269
Liabilities		
Non-current liabilities		
Borrowings from credit institutions	20 790 127	25 928 430
Borrowings from related companies	1 662 348	-
Finance lease	51 930	65 907
Finance lease from related parties	164 000	164 000
Other borrowings	1 309 399	1 620 204
Deferred tax liabilities	3 089 281	2 917 078
Defined benefit obligation	6 053 475	6 713 542
Deferred income	5 173 683	4 727 469
Derivative	250 435	431 00
Total non-current liabilities	38 544 678	42 567 636
Current liabilities		
Borrowings from credit institutions	23 676 148	23 534 569
Finance lease	49 470	68 804
Finance lease from related parties	111 000	111 000
Other borrowings	187 146	202 610
Advance payments from customers	1 490 923	121 902
Trade payables	17 859 492	13 232 522
Payables to related parties	301 717	515 908
Taxes and social security contributions	1 413 037	1 081 114
Other accounts payable	1 659 013	1 001 015
Accrued liabilities	881 628	2 104 964
Defined benefit obligation	966 645	992 782
Deferred income	491 783	437 705
Total current liabilities	49 088 002	43 404 895
Total liabilities	87 632 680	85 972 531
TOTAL EQUITY AND LIABILITIES	153 477 012	140 862 800

STATEMENT OF PROFIT AND LOSS

For the period ended 30 June 2017 and 30 June 2016

	6 months 2017 EUR	6 months 2016 EUR
Sales	69 116 632	66 699 909
Change in inventories	(3 295 385)	(3 069 161)
Costs capitalized to non-current assets	218 267	119 037
Other operating income	1 437 460	663 946
Raw materials and consumables	(33 760 203)	(33 804 814)
Personnel expenses	(13 427 223)	(12 799 266)
Depreciation and amortization	(5 603 013)	(5 230 891)
Other operating expenses	(8 579 680)	(8 700 343)
Profit from operations	6 106 855	3 878 417
Interest and similar income	537 598	357 077
Interest and similar expenses	(618 071)	(673 679)
Profit before tax	6 026 382	3 561 815
Corporate income tax	(430 500)	(400 823)
Profit for the year	5 595 882	3 160 992
<i>Attributable to:</i>		
Non-controlling interest	385 362	-
Owners of the Company	5 210 520	3 160 992
Earnings per share	0.2179	0.1322

STATEMENT OF CASH FLOWS

For the period ended 30 June 2017 and 30 June 2016

	6 months 2017 EUR	6 months 2016 EUR
OPERATING ACTIVITIES		
Profit before tax	6 026 382	3 561 815
Adjustments:		
Change in fair value of embedded derivatives	(180 572)	(64 514)
Depreciation and amortization	5 603 013	5 230 891
Interest expenses	618 071	673 679
Interest income	(19 538)	(1 292)
Financial income EU grants	(361 849)	(336 427)
Changes in working capital:		
(Increase) / decrease in inventories	4 872 534	2 693 327
(Decrease) / Increase in accounts receivable	(11 319 550)	(7 160 733)
Increase in accounts payable	1 507 649	(1 742 447)
Cash provided by operating activities	6 746 140	2 854 301
INVESTING ACTIVITIES		
Purchase of fixed and intangible assets	(12 271 652)	(4 041 298)
Income from investment in related party shares	7 128 000	-
Received interest	19 538	1 292
Net cash used in investing activities	(5 124 114)	(4 040 006)
FINANCING ACTIVITIES		
Loans received	1 662 348	3 816 863
Loans paid	(5 529 794)	(4 502 701)
Change in credit line	206 802	2 226 596
Finance lease paid	(33 311)	(62 173)
Paid interest expenses	891 847	1 090 793
Received EU and state grants	(618 071)	(673 679)
Net cash (used in) / provided by financing activities	(3 420 179)	1 895 698
Net cash flow for the financial year	(1 798 153)	709 993
Cash and cash equivalents at the beginning of the year	2 958 952	1 200 204
Cash and cash equivalents at the end of the year	1 160 799	1 910 197

STATEMENT OF SHAREHOLDERS' EQUITY

As of 30 June 2017 and 31 December 2016

	Share capital	Foreign currency translation reserve	Other reserves	Retained earnings	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR
As of 31 December 2015	33 464 487	1 942 629	(951 732)	20 737 699	-	55 193 083
Current year profit	-	-	-	3 160 992	-	3 160 992
Payment of dividends	-	-	-	-	-	-
<i>Other comprehensive income</i>						
Remeasurement of defined benefit obligation	-	-	386 698	-	-	386 698
Exchange differences on translating foreign operations	-	(2 023 771)	-	-	-	(2 023 771)
As of 30 June 2016	33 464 487	(81 142)	(565 034)	23 898 691	-	56 717 002
As of 31 December 2016	33 464 487	(257 191)	(3 418 157)	24 044 472	1 056 658	54 890 269
Profit of the financial period	-	-	-	5 210 520	-	5 210 520
Payment of dividends	-	-	-	-	-	-
Non-controlling interest	-	-	-	-	7 325 261	7 325 261
<i>Other comprehensive income</i>						
Exchange differences on translating foreign operations	-	(1 581 718)	-	-	-	(1 581 718)
As of 30 June 2017	33 464 487	(1 838 909)	(3 418 157)	29 254 992	8 381 919	65 844 332

ANNEX

1. Share capital

The share capital as of 30 June 2017 and 30 June 2016 consists of 11,494,250 publicly listed bearer shares and 12,408,955 private placement ordinary shares, all with equal rights.

As of 30 June 2017 and 2016 the shareholders of the Parent company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	30.06.2017
Corvalis GmbH (former Vitrulan International GmbH)	36.19%
P-D Glasseiden GmbH Oschatz	26.07%
P-D Management Industries-Technologies GmbH	23.93%
Preiss-Daimler Beatrix	5.36%
Other	8.25%
	100.0%

	30.06.2016
Vitrulan International GmbH	36.2%
P-D Glasseiden GmbH Oschatz	26.10%
P-D Management Industries-Technologies GmbH	23.9%
Preiss-Daimler Beatrix	5.36 %
Other	8.44%
	100.0 %

As announced on 7 July 2017, Corvalis GmbH notified (Transactions under Regulation No. 596/2014) the Parent company of the intention to sell their bearer and registered shares of Valmieras stikla šķiedra JSC.

2. INFORMATION CONCERNING THE PROFIT OR LOSS STATEMENT

	6 months 2017 EUR	6 months 2016 EUR
2.1. RAW MATERIALS AND CONSUMABLES		
Raw materials	23 608 112	24 810 316
Natural gas	2 221 000	1 885 861
Electricity	3 348 939	3 621 147
Oxygen	430 837	406 309
Precious metal plates processing costs	394 517	348 207
Other	3 756 798	2 732 975
Total	33 760 203	33 804 814
2.2. PERSONNEL EXPENSES		
Salaries	9 788 253	9 294 815
State social security contributions	2 189 720	1 911 530
Illness and vacation expenses	1 009 637	847 712
Remuneration of Board and Council	104 295	290 000
Employee insurance	249 458	114 627
Other	85 860	340 582
Total	13 427 223	12 799 266
2.3. DEPRECIATION AND AMORTIZATION		
Fixed asset depreciation based on straight line method	5 291 465	4 968 895
Depreciation of precious metal plates	257 529	220 883
Intangible asset amortization	54 019	41 113
Total	5 603 013	5 230 891
2.4. OTHER OPERATING EXPENSES		
Transportation	4 061 105	3 936 827
Sales commission	773 247	786 251
Service costs	656 908	714 266
Spare parts	629 793	729 786
Repair expenses	344 879	249 250
Training and qualification of employees	40 558	188 596
Insurance	305 994	283 843
Business trips	353 329	409 979
Labour safety and specific clothing	163 170	138 802
Research and development expenses	92 147	175 439
Communications	76 651	96 902
Rent	380 458	313 263
Office expenses	25 537	23 987
Selling expenses	213 265	152 638
Property tax	110 031	112 668
Allowance for doubtful receivables	-	(11 337)
Audit fees	43 025	11 557
Other	309 583	387 627
Total	8 579 680	8 700 343

3. TRADE RECEIVABLES	30.06.2017	30.06.2016
	EUR	EUR
P-D Glasseiden GmbH Oschatz	1 078 328	1 196 641
P-D Tafneft Fiberglass Alabuga	-	25 422
P-D Industriegesellschaft GmbH	84 626	216 000
P-D Interglas Technologies GmbH	1 107	19 859
P-D Management Industries GmbH	41 662	117 316
Preiss-Daimler FibreGlass AB	13 586	6 068
Other trade receivables	16 435 090	17 534 646
Allowance for doubtful receivables	(524 836)	(458 386)
Total	17 129 563	18 657 566

Disclaimer

The Financial Statement may contain future projections.

These projections include statements on the Group's further strategy, objectives, future plans, and tasks and planned events, the performance of which may be affected by the action of third parties not being under the Group's control, and therefore the said future results may differ from the results expressed or implied in the Financial Statement.

The management of Valmieras stikla šķiedra JSC assumes no responsibility for decisions made by third parties based on the projections provided by Valmieras stikla šķiedra JSC management within the Financial Statement.