

JOINT STOCK COMPANY „VALMIERAS STIKLA ŠĶIEDRA”

Registration Number 40003031676

UNAUDITED
INTERIM CONSOLIDATED FINANCIAL REPORT
FOR THE 12 MONTHS PERIOD ENDED 31 DECEMBER 2016

Made in accordance with the International
Financial Reporting Standards



VALMIERA GLASS®

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, 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 Hans-Jochen Manfred Gotthard Häusler (till 31.12.2016)
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 2016 – 31 December 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

General information

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 12 months of 2016, products made by Valmieras stikla šķiedra JSC were exported to 41 countries around the world, and export volume grew 97%. In 2016, the Group experienced a record number of orders for its products; the demand for glass fibre products was extremely high, more than the Group was able to supply to its customers, with its overall production capacity possibilities. In 2016, the Group experienced a record number of orders for its products and the demand for glass fibre products was extremely high. The 4th quarter sales of 2016 were strong and the Group continued to strengthen its positions in the current markets. In 2016, the main export markets remained the same: European Union countries (76%), North America (11%) and other export countries.

From a product segment perspective, sales volumes have increased for high added-value products, such as high-concentration SiO₂ glass fibre products with heat resistance of 1 000+°C and HR-glass products with heat resistance of 800°C. In 2016, on average, the sales of these products grew by 28% compared to 2015. The other segments of product sales were marked by stability despite the reconstruction of the glass melting furnace at Valmieras stikla šķiedra JSC.

It should be noted that in 2016 Valmieras stikla šķiedra JSC and its subsidiaries developed in total more than 190 new products, and the portfolio of products developed since creating the Group in 2013 has grown by 46%, considerably expanding the Group's portfolio of products for the thermal insulation market.

Employees

In 2016, the Valmiera Glass Group employed on average 1207 employees, of which the average number of employees employed by Valmieras stikla šķiedra JSC alone was 1032. In 2016 the subsidiary company Valmiera Glass UK Ltd. employed on average 130 employees, and the subsidiary P-D Valmiera Glass USA Corp. had on average 45 employees.

Investments

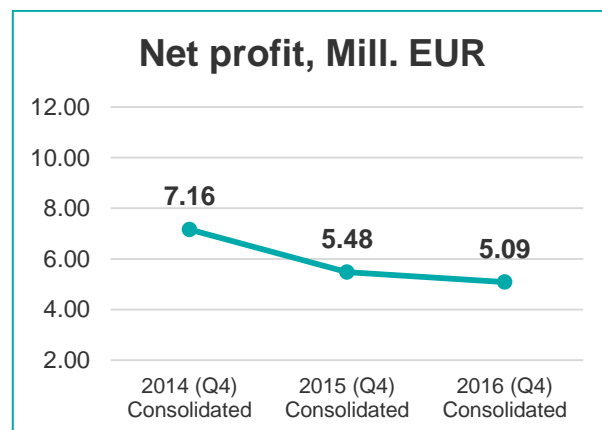
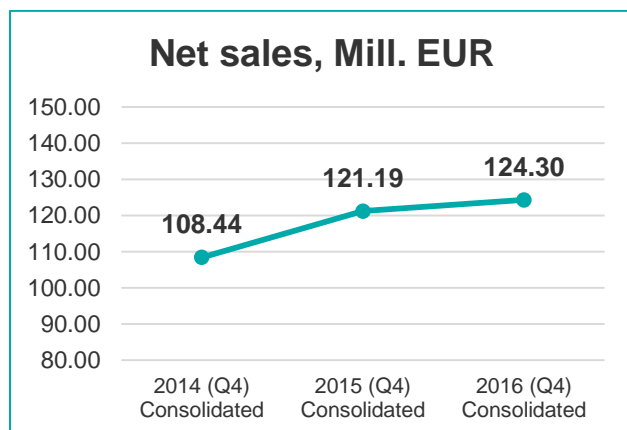
In 2016, investments were related to the purchase of new equipment, the modernization of the existing technical and technological solutions, and the development of new products with the aim of increasing the Group's production capacity.

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 a 30% higher 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).

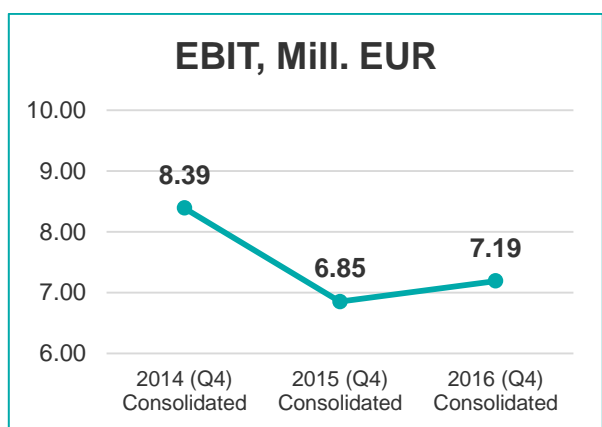
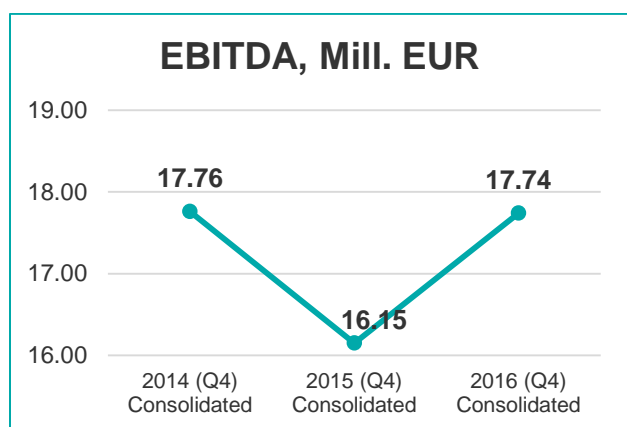
In 2016, also the largest investment project in the history of Valmieras stikla šķiedra JSC was initiated - the expansion of US-based manufacturing facility. Until 2022, it is expected to create 425 new job places and to invest 80 million EUR from our own financial resources by also attracting loans 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.

Finance results

The consolidated net sales of the Group in the year 2016 has reached EUR 124.3 Million. Compared to the result of the Group in the year 2015 it has increased by EUR 3.1 Million or 2.6%, given the strong performance of sales in all principal markets and confirming continuous trend of sales growth since 2010.



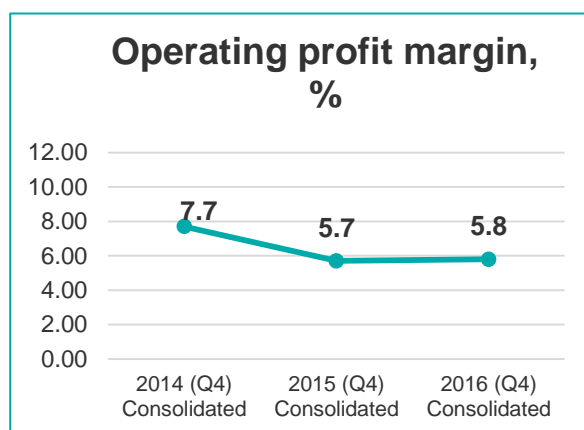
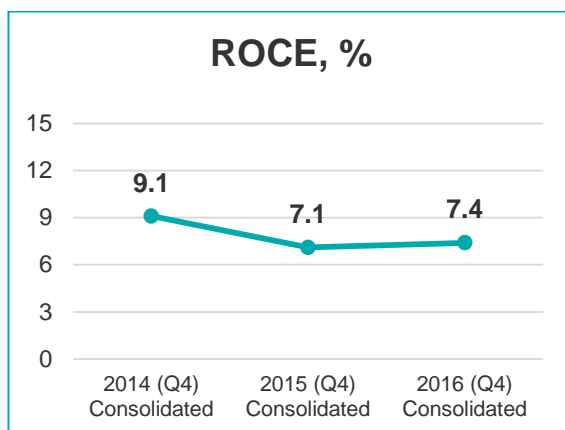
The consolidated operating profit (EBITDA) was EUR 17.74 Million and that is EUR 1.6 Million or 10% more than in the year 2015, and just below the record EUR 17.8 Million reached in 2014. The EBITDA margin increased as well to 14% from 13% in 2015. The earnings before interest and taxes (EBIT) reached EUR 7.19 Million and that is EUR 0.3 Million or 5% more than in the year 2015.



The consolidated operating profit margin ratio in the year 2016 was 5.8%, again evidencing return to stronger performance after falling down from 7.7% to 5.7% in 2015.

Consolidated Pre-tax profit reached EUR 6.3 Million in 2016 marking as well slight growth of EUR 0.3 million from EUR 6 million in 2015.

The consolidated return on capital (ROCE) in the year 2016 is 7.4% whereas the consolidated operating profit margin ratio in the year 2016 was 5.8%.



The consolidated net profit of the Group in the year 2016 was EUR 5.09 million, or EUR 0.39 million less compared to the audited net profit of the Group in the year 2015. The reduced profit compared to 2015 and to the previously issued forecasts is due to the larger interest costs, additional provisions for deferred corporate income tax and reconstructed glass-melting furnace results which was not fully be able to compensate the loss of production in the May-August period of 2016, despite the extra 30% of the furnace capacity.

Considering the positive growth trends in the global glass fibre market, the ever more rapidly developing 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 from EUR 135 to EUR 142 million, and the consolidated net profit from EUR 9.5 million to EUR 10 million.

This is also shown with the preliminary Group's business results in the first month of 2017: the consolidated net sales in January was EUR 12.7 million, the consolidated net profit was EUR 1 million, which is by 33% more than in January 2016, whereas the consolidated operating profit (EBITDA) has increased by 62%, compared to January 2016, reaching EUR 2.5 million. The Group's products are fully sold out in the global markets, and the trend is expected to continue.

Stock Market

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

The growth of Valmieras stikla šķiedra JSC, since the establishment of Valmiera Glass Group in 2013, till 2016 has also been reflected in its share price at the Nasdaq Riga stock exchange. In this period, the share price grew by more than 157%. In 2016, the share price fluctuated between EUR 2.76 (lowest share price) and EUR 3.80 (highest share price). In the reporting period, the average share price was EUR 3.35, and the company's capitalization as of 31.12.2016 was EUR 74.34 million.

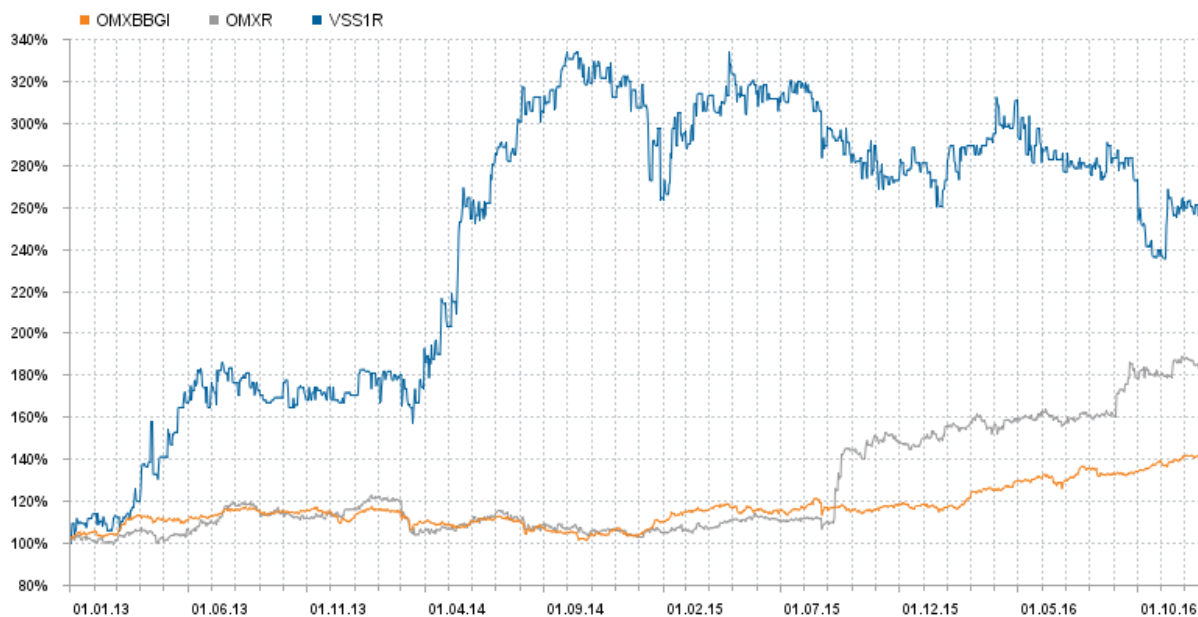
Development of Valmieras stikla šķiedra JSC share price at the Nasdaq Riga stock exchange (EUR) (2013 - 2016)



During the period from 1 January to 31 December 2016 the company's share price decreased by EUR 0.29 or 8.53%. As of 1 January 2016, the share price was EUR 3.40, but by 31 December 2016 it had decreased to EUR 3.11.

The number of shares traded during the 12 months of 2016 exceeded 309 thousand, and the volume of stocks of Valmieras stikla šķiedra JSC reached EUR one million.

Valmieras stikla šķiedra JSC share price at the Nasdaq Riga stock exchange compared to OMX Baltic Benchmark GI and OMX Riga indices (EUR) (2013 – 2016)



From 2013 to 2016, the share price of Valmieras stikla šķiedra JSC grew considerably faster than the OMX Baltic Benchmark GI and the OMX Riga indices. From 2013 to 2016, the OMX Riga index grew by 85.34%, the OMX Baltic Benchmark GI index - by 44.09%, but Valmieras stikla šķiedra JSC share price - by 157.14%.

Valmieras stikla šķiedra JSC
The Chairman of the Board
Andre Heinz Schwiontek
27 February 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 31 December 2016 and the results of its operations and cash flows for the period ended on 31 December 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.

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
27 February 2017

BALANCE SHEET (ASSETS)

As of 31 December 2016 and 31 December 2015

	31.12.2016 EUR	31.12.2015 EUR
ASSETS		
Non-current assets		
Intangible assets		
Patents, licenses, trade mark and similar rights	869 605	602 275
Software in acquisition process	-	107 912
Goodwill	3 826 612	4 463 886
Total intangible assets	4 696 217	5 174 073
Tangible fixed assets		
Land and buildings	17 221 659	17 396 474
Equipment and machinery	60 367 152	55 304 751
Other fixed assets	1 144 244	1 176 890
Constructions in progress	5 875 403	4 998 127
Advance payments for fixed assets	348 704	1 169 476
Total fixed assets	84 957 161	80 570 718
Non-current financial investments		
Deferred expenses	235 322	376 985
Total non-current financial investments	235 322	376 985
Long-term financial investments		
Deferred tax assets	1 966 196	1 683 720
Total non-current assets	91 854 896	87 805 496
Current assets		
Inventory		
Raw materials	9 963 586	11 463 320
Work in progress	5 692 388	4 099 538
Finished goods	16 625 456	14 806 715
Advance payments for inventories	223 141	392 581
Total inventory	32 504 571	30 762 154
Accounts receivable		
Trade receivables	10 384 974	9 661 318
Receivables from related parties	1 050 093	2 185 808
Other receivables	1 549 368	850 590
Deferred expenses	864 807	703 106
Total accounts receivable	13 849 242	13 400 822
Cash and cash equivalents	2 562 959	1 200 204
Total current assets	48 916 772	45 363 180
TOTAL ASSETS	140 771 668	133 168 676

BALANCE SHEET (LIABILITIES)

As of 31 December 2016 and 31 December 2015

	31.12.2016 EUR	31.12.2015 EUR
LIABILITIES & SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	33 464 487	33 464 487
Foreign operations currency reserve	(538 791)	1 942 629
Other reserves	(3 556 254)	(951 732)
Retained earnings:		
a) Retained earnings	19 092 036	15 262 524
b) Attributable to minority interest	131 107	-
c) Current year profit	5 111 828	5 475 175
Minority interest	1 071 034	-
Total shareholders' equity	54 775 446	55 193 083
Liabilities		
Non-current liabilities		
Due to credit institutions	25 928 430	29 598 475
Finance lease	229 907	134 711
Other borrowings	1 620 204	344 448
Deferred tax	2 583 686	1 668 561
Retirement benefit obligation	6 713 541	5 203 352
Deferred income	4 654 605	3 845 606
Embedded derivatives	431 006	764 506
Total non-current liabilities	42 161 379	41 559 659
Current liabilities		
Due to credit institutions	23 138 809	19 697 612
Finance lease	179 804	116 313
Other borrowings	202 610	-
Advance payments from customers	121 902	163 971
Trade payables	13 926 521	10 669 872
Payables related parties	501 212	683 826
Taxes and social security contributions	1 029 311	761 457
Other accounts payable	987 695	778 034
Accrued liabilities	2 316 493	1 937 297
Retirement benefit obligations	992 782	1 158 117
Deferred income	437 705	449 435
Total current liabilities	43 834 844	36 415 934
Total liabilities	85 996 223	77 975 593
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	140 771 668	133 168 676

STATEMENT OF PROFIT AND LOSS

For the period ended 31 December 2016 and 31 December 2015

	31.12.2016 EUR	31.12.2015 EUR
Sales	124 254 867	121 191 727
Change in inventories	3 553 540	(3 314 150)
Costs capitalized to non-current assets	373 929	384 243
Other operating income	1 170 138	3 239 005
Raw materials and consumables	(67 053 267)	(59 921 117)
Personnel expenses	(26 682 389)	(23 797 197)
Depreciation and amortization	(10 548 173)	(9 298 568)
Other operating expenses	(17 877 825)	(21 633 313)
Operating profit	7 190 820	6 850 630
Interest and similar income	735 380	1 187 870
Interest and similar expenses	(1 609 794)	(2 041 154)
Profit from operations and before tax	6 316 406	5 997 346
Corporate income tax	(1 228 648)	(522 171)
Net profit for the financial year	5 087 758	5 475 175
Attributable to minority interest	(24 070)	-
Attributable to majority interest	5 111 828	5 720 131
Earnings per share	0.2129	0.2291

STATEMENT OF CASH FLOWS

	31.12.2016 EUR	31.12.2015 EUR
OPERATING ACTIVITIES		
Profit before tax	6 316 406	5 997 346
Adjustments:		
Change in fair value of embedded derivatives	(333 500)	(491 357)
Depreciation and amortization	10 548 173	9 298 568
Profit from disposal of fixed assets	-	98 604
Adjustments of reduction in the value of long-term and short-term financial investments	1 217 151	-
Interest expenses	1 609 794	1 357 222
Interest income	(121 902)	(15 499)
Financial income EU Funding / LIAA State support	(714 064)	(934 072)
Changes in operating assets and liabilities:		
Inventories	1 742 417	1 698 657
Accounts receivable and other assets	(297 698)	(3 894 985)
Accounts payable and other liabilities	(1 058 375)	1 192 589
Revenue from interest	-	15 499
Cash provided by operating activities	15 423 569	14 322 574
Investing activities		
Purchase of fixed and intangible assets	(13 467 825)	(15 714 911)
Income from sales of fixed assets	-	21 963
Revenue from interest	121 902	-
Net cash used in investing activities	(13 345 923)	(15 692 948)
FINANCING ACTIVITIES		
Dividends paid	(1 645 663)	(2 811 017)
Loans received	7 714 386	11 229 456
Loans paid	(8 807 384)	(7 937 605)
Credit line received	2 342 515	1 228 784
Finance lease paid	(116 313)	(143 239)
EU / LIAA funding received	1 407 362	1 169 818
Interest paid	(1 609 794)	(1 344 848)
Net cash provided by financing activities	(714 891)	1 391 349
Net decrease / increase in cash and cash equivalents	1 362 755	20 974
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	2 562 959	1 200 204

STATEMENT OF SHAREHOLDERS' EQUITY

As of December 31 2016 and 31 December 2015

	Share capital	Foreign currency reserve	Other reserves	Retained earnings	Minority interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR
As of 31 December 2014	33 464 487	675 927	(758 258)	18 073 541	-	51 455 697
Profit 12 months 2014	-	-	-	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 31 December 2015	33 464 487	1 942 629	(951 732)	20 737 699	-	55 193 083
Profit 12 months 2015	-	-	-	5 111 828	(24 070)	5 087 758
Minority interest	-	-	-	131 107	1 096 416	1 227 522
Dividends paid	-	-	-	(1 645 663)	-	(1 645 663)
Other comprehensive income:						
<i>Remeasurement of defined benefit obligation</i>	-	-	(2 529 772)	-	-	(2 529 772)
<i>Deferred income tax relating to defined benefit obligation</i>	-	-	(74 751)	-	-	(74 751)
<i>Exchange differences on translating foreign operations</i>	-	(2 481 420)	-	-	(1 312)	(2 482 732)
As of 31 December 2016	33 464 487	(538 791)	(3 556 254)	24 334 971	1 071 034	58 798 703

ANNEX

1. Share capital

The share capital as of 31 December 2016 and 31 December 2015 consists of 11,494,250 publicly listed bearer shares and 12,408,955 private placement ordinary shares, all with equal rights. As of 31 December 2016 and 2015 the shareholders of the Parent company, in accordance with the records maintained by the Latvian Central Depository, were as follows:

	31.12.2016
Corvalis GmbH (former Vitrulan International GmbH)	30,80 %
P-D Glasseiden GmbH Oschatz	26,07 %
SEB Estonia on behalf of Clearstream banking SA	34,88 %
Other	8,25 %
	100,0 %

	31.12.2015
Vitrulan International GmbH	30,80 %
P-D Glasseiden GmbH Oschatz	26,10 %
SEB Estonia on behalf of Clearstream banking SA	24,12 %
CBD RE Clients	5,39 %
Preiss-Daimler Beatrix	5,36 %
Other	8,23 %
	100,0 %

The company is controlled by Heinz-Jürgen Preiss-Daimler and Beatrix Preiss-Daimler. Corvalis GmbH has an essential influence on the company. The beneficial owner of Corvalis GmbH is Hans Peter Cordts.

2. INFORMATION CONCERNING THE PROFIT OR LOSS STATEMENT

	2016	2015
	EUR	EUR
2.1. Material expenses		
Raw materials	48 539 726	41 556 797
Natural gas	3 650 292	4 689 896
Electricity	6 894 871	7 340 876
Oxygen	776 345	839 739
Ore processing costs	684 438	663 879
Other	6 507 596	4 829 930
Total	67 053 267	59 921 117
2.2. Personnel expenses		
Salaries	19 040 678	17 951 899
Social security payments	4 039 308	3 316 510
Illness and vacation expenses	1 959 856	1 581 422
Provisions for remuneration of Board and Council	793 392	487 531
Insurance of employees	340 348	194 678
Other	508 807	265 157
Total	26 682 389	23 797 197
2.3. Depreciation and amortization		
Fixed asset depreciation	10 106 140	8 796 681
Depletion of ore	354 436	406 615
Intangible asset amortization	87 597	95 272
Total	10 548 173	9 298 568
2.4. OTHER OPERATING EXPENSES		
Transportation	8 479 965	8 564 886
Sales commission	1 435 079	2 001 113
Service costs	1 305 785	3 158 020
Spare parts	1 547 305	1 530 899
Repair expenses	624 780	528 062
Training and qualification of employees	641 091	653 298
Insurance	629 033	773 884
Business trips	779 349	1 235 237
Labour safety and specific clothing	312 245	268 053
Research and development expenses	260 501	468 002
Communications	204 761	251 337
Leasing	740 053	806 700
Office expenses	63 002	72 663
Sales expenses	219 917	253 637
Property tax	199 929	214 532
Increase in doubtful debts	13 049	248 552
Other	421 981	604 437
Total	17 877 825	21 633 312

3. TRADE RECEIVABLES	31.12.2016	31.12.2015
	EUR	EUR
P-D Glasseiden GmbH Oschatz	869 418	1 391 883
P-D Tafneft Alabuga Fiberglass	-	157 108
P-D Industriegesellschaft GmbH Bratendorf	563	385 930
P-D Interglas Technologies GmbH	5 243	5 425
P-D Management Industries-Technologies GmbH	13 586	-
Preiss-Daimler FibreGlass AB	82 326	73 436
Vitrolan Textile Glass GmbH GmbH	-	15 696
Vitrolan Technical Textiles GmbH	25 496	156 330
Other trade receivables	10 603 306	10 131 041
Increase in doubtful debts	(164 871)	(469 723)
Total	11 435 067	11 847 126

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.