

JOINT STOCK COMPANY „VALMIERAS STIKLA ŠĶIEDRA”

Registration Number 40003031676

Financial Report for the period ended September 30th 2015

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> 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 2015 – September 30 th 015 |
| 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

Type of business

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

Valmieras stikla šķiedra JSC specialises in the manufacture of two different types of glass fibre (E-glass with a temperature resistance of 600 °C and SiO₂-glass with a temperature resistance of 1 000+°C) and products thereof. They are used for further processing, in technical insulation (electrical, thermal and sound) materials and as finished materials in mechanical engineering, construction and elsewhere.

The subsidiary Valmiera Glass UK Ltd. manufactures glass fibre products for the aviation industry, thermal insulation and architecture. Valmiera Glass USA Corp., in turn, has been manufacturing glass fibre products with high added value – non-woven materials – since February 2015. Valmiera Glass Trading USA Corp. has been established for the purpose of selling the products of the Group in the United States of America.

Sales

In the first nine months of 2015, Valmieras stikla šķiedra JSC exported its products to 38 countries worldwide, and the volume of export reached 98 %. In Q3 2015, the main product export markets remained the same: the European Union countries (75 %) and North America (14 %). The sales volumes in the first nine months of 2015 have increased in the geographic markets of the European Union (an increase of 13 %) and North America (an increase of 30 %) compared to the corresponding period in 2014.

By product segments, an increase in sales volume was seen for high added value products such as glass fibre meshes, technical textiles and non-woven materials. In Q3 2015, these products were sold for an average of 27 % more as compared to the corresponding period in 2014. The other product sales segments show stability.

Employees

Over the first three quarters of 2015, Valmiera Glass Group employed 1 169 employees on average, of which 973 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 150 and 46 persons respectively in the first nine months of 2015.

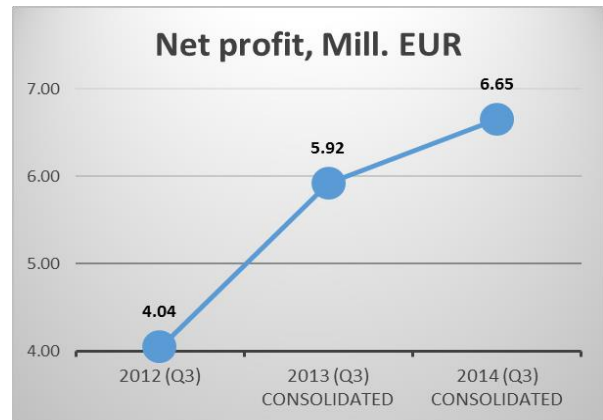
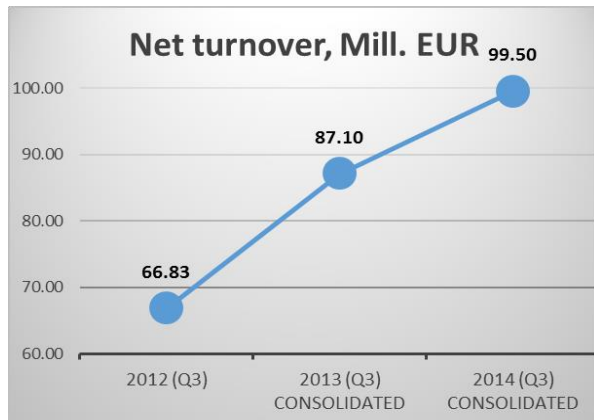
Investments

In the first nine months of 2015, a total of EUR 12.09 million has been invested in the development of the Group, which includes the purchase of new equipment, the retrofitting of existing technical and technological solutions and the development of new products with the aim of increasing the production capacity of the Group, as well as the implementation of new environmental protection technologies.

Financial results

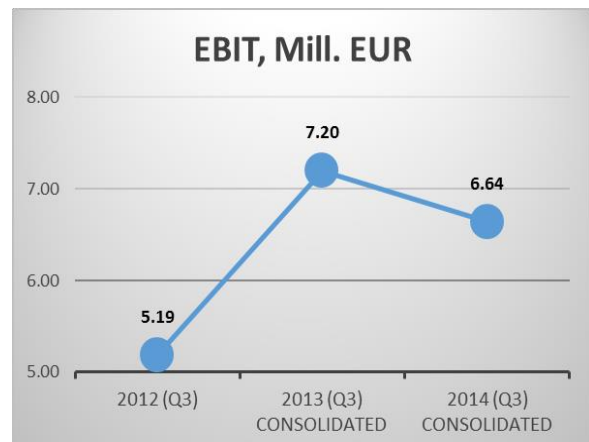
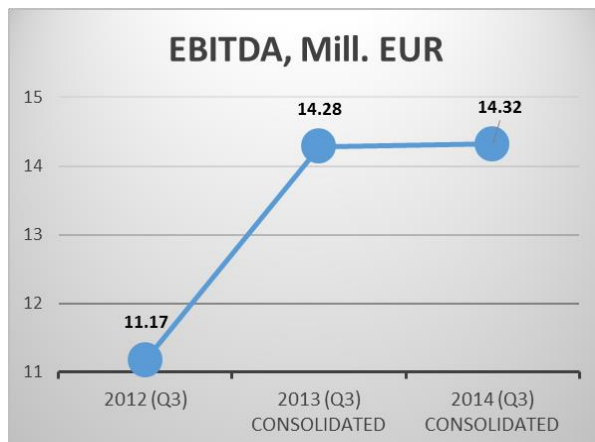
The consolidated net turnover of the Group in the first nine months of 2015 has reached EUR 99.50 Million. Compared to the result of the Group in the first nine months of 2014 it has increased by EUR 12.4 Million or 14%.

The consolidated net profit of the Group in the first nine months of 2015 has reached EUR 6.65 Million and that is 12% more compared to the net profit of the Group in the same period of 2014.

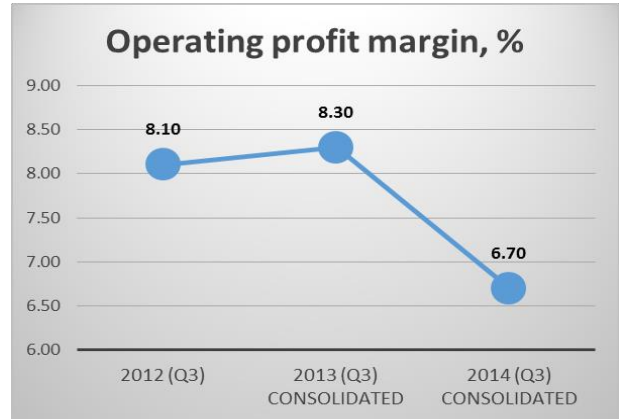
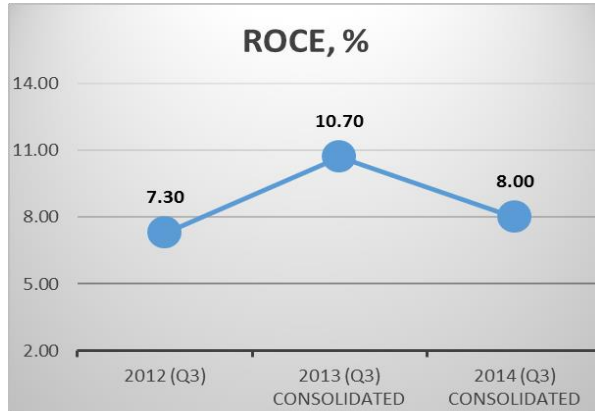


The consolidated operating profit (EBITDA) was EUR 14.32 Million and stayed at the same level compared to the same period of 2014.

The earnings before interest and taxes (EBIT) reached EUR 6.64 Million and that is 8% less as in the same period of 2014.



The consolidated return on capital (ROCE) is 8.0% whereas the consolidated operating profit margin ratio of the first nine months of 2015 was 6.7%.



Taking into account the performance of the Group in the first nine months of 2015 and the overall development trends, the Group management maintains its earlier forecast of the net turnover for 2015 at EUR 127.7 million, which is 18 % more than the audited consolidated net turnover in 2014. In terms of product sales, the first three quarters of this year have displayed the best performance in the entire history of the Group, notwithstanding that, in Q3, for technical reasons, one of the glass melting furnaces failed to produce the planned output of glass fibre. To ensure sales volume, this was compensated for by purchasing semi-finished products, thereby reducing the profit margin. Consequently, the consolidated net profit forecast for 2015 has been reviewed and now is estimated to be EUR 7.7 million, which is about 8 % more as compared to the audited consolidated net profit for 2014.

Share 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 01.01.2015 to 30.09.2015
Information from: AS „NASDAQ OMX Riga”, home page www.nasdaqomxbaltic.com*



The Company's share price from January 1st 2015 till September 30th 2015 has decreased by EUR 0.27 or 7.26%. The value of one share at January 1st 2015 was EUR 3.720 and on September 30th 2015 the price has decreased to EUR 3.45.

The number of shares sold in first nine months 2015 is 257.78 Thousand and turnover of JSC Valmieras stikla šķiedra shares has reached EUR 1.01 Million.

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

October 30th 2015

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 2015 and the results of its operations and cash flows for the period ended on September 30th 2015. 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 30th 2015

BALANCE SHEET (ASSETS)

As at 30th September 2015 and September 30th 2014

| | 30.09.2015 | 30.09.2014 |
|--|--------------------|--------------------|
| | EUR | EUR |
| AKTĪVS | | |
| Non-current assets | | |
| Intangible assets | | |
| Patents, licenses, trade mark and similar rights | 550 575 | 472 631 |
| Costs of establishment of intangible investments | | |
| Goodwill | 3 930 822 | 3 930 822 |
| Total intangible assets | 4 481 397 | 4 403 453 |
| Tangible fixed assets | | |
| Land and buildings | 17 233 941 | 14 066 742 |
| Equipment and machinery | 52 440 868 | 46 738 982 |
| Other fixed assets | 1 072 062 | 856 646 |
| Constructions in progress | 5 983 448 | 2 256 337 |
| Advance payments for fixed assets | 2 131 528 | 2 625 334 |
| Total fixed assets | 78 861 847 | 66 544 041 |
| Deferred tax assets | 1 641 242 | 1 088 889 |
| Total non-current assets | 84 984 486 | 72 036 383 |
| Current assets | | |
| Inventory | | |
| Raw materials | 10 189 042 | 8 571 402 |
| Work in progress | 3 272 285 | 3 471 908 |
| Finished goods | 9 418 091 | 11 969 043 |
| Advance payments for inventories | 428 052 | 385 713 |
| Total inventory | 23 307 470 | 24 398 066 |
| Accounts receivable | | |
| Trade receivables | 15 116 088 | 15 157 864 |
| Receivables from related parties | 2 959 248 | 2 814 449 |
| Other receivables | 800 326 | 535 851 |
| Deferred expenses | 2 184 849 | 441 286 |
| Total accounts receivable | 21 060 511 | 18 949 450 |
| Cash and cash equivalents | 1 987 317 | 682 634 |
| Total current assets | 46 355 298 | 44 030 150 |
| TOTAL ASSETS | 131 339 784 | 116 066 533 |

BALANCE SHEET (LIABILITIES)

As at September 30th 2015 and September 30 2014

| | 30.09.2015 | 30.09.2014 |
|---|--------------------|--------------------|
| | EUR | EUR |
| LIABILITIES & SHAREHOLDERS' EQUITY | | |
| Shareholders' equity | | |
| Share capital | 33 464 487 | 33 464 487 |
| Other reserves | 289 562 | 2 053 389 |
| Retained earnings: | | |
| a) Retained earnings | 15 261 916 | 11 453 637 |
| b) Current year profit | 6 651 713 | 5 924 268 |
| Total shareholders' equity | 55 667 679 | 52 895 781 |
| Liabilities | | |
| Non-current liabilities | | |
| Due to credit institutions | 31 610 940 | 30 288 611 |
| Finance lease | 267 951 | 78 879 |
| Deferred tax | 657 437 | 677 308 |
| Retirement benefit obligation | 5 546 222 | 4 486 190 |
| Deferred income | 3 775 993 | 1 807 047 |
| Embedded derivatives | 863 032 | 1 392 846 |
| Total non-current liabilities | 42 721 575 | 38 730 881 |
| Current liabilities | | |
| Due to credit institutions | 18 947 734 | 9 124 532 |
| Finance lease | 10 904 | 83 423 |
| Advance payments from customers | 448 069 | 129 185 |
| Trade payables | 8 783 018 | 8 170 795 |
| Payables related parties | 680 622 | 2 325 871 |
| Taxes and social security contributions | 527 933 | 704 872 |
| Other accounts payable | 736 526 | 562 056 |
| Accrued liabilities | 1 488 463 | 2 212 170 |
| Retirement benefit obligations | 1 150 982 | 958 254 |
| Deferred income | 176 281 | 168 713 |
| Total current liabilities | 32 950 530 | 24 439 871 |
| Total liabilities | 75 672 105 | 63 170 752 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | 131 339 784 | 116 066 533 |

STATEMENT OF PROFIT AND LOSS

For the period ended September 30th 2015 and September 30th 2014

| | 30.09.2015 EUR | 30.09.2014 EUR |
|--|-------------------|-------------------|
| Sales | 99 501 136 | 87 091 182 |
| Change in inventories | (9 854 064) | 260 975 |
| Other operating income | 2 859 410 | 868 501 |
| Raw materials and consumables | (45 467 767) | (44 346 794) |
| Personnel expenses | (18 330 719) | (15 910 230) |
| Depreciation and amortization | (7 676 600) | (7 078 551) |
| Other operating expenses | (14 391 149) | (13 684 005) |
| Operating profit | 6 640 248 | 7 201 078 |
| Interest and similar income | 1 112 350 | 344 118 |
| Interest and similar expenses | (1 325 645) | (1 206 241) |
| Profit from operations and before tax | 6 426 953 | 6 338 955 |
| Corporate income tax | 224 760 | (414 687) |
| NET PROFIT | 6 651 713 | 5 924 268 |
| Earnings per share | 0.2783 | 0.2478 |

STATEMENT OF CASH FLOWS

| | 9 months 2015 | 9 months 2014 |
|---|--------------------------|--------------------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 6 426 953 | 6 338 955 |
| Adjustments: | | |
| Change in fair value of embedded derivatives | (387 107) | (232 990) |
| Depreciation and amortization | 7 676 600 | 7 078 551 |
| Loss on disposal and sales of fixed assets | (5 339) | - |
| Interest expenses | 1 325 645 | 1 206 241 |
| Interest income | (7 615) | - |
| Financial income EU Funding / LIAA State support | (535 147) | (158 214) |
| Changes in operating assets and liabilities: | | |
| Inventories | 9 153 342 | (324 242) |
| Accounts receivable and other assets | (11 115 936) | (5 255 214) |
| Accounts payable and other liabilities | (675 708) | (1 003 450) |
| Cash provided by operating activities | 11 855 688 | 7 649 637 |
| Investing activities | | |
| Purchase of fixed and intangible assets | (13 091 233) | (8 303 375) |
| Income from sales of fixed assets | 21 963 | - |
| Interest income received | 7 615 | - |
| Net cash used in investing activities | (13 061 655) | (8 303 375) |
| Financing Activities | | |
| Loans received | 10 059 534 | 5 073 905 |
| Loans paid | (2 811 626) | (2 007 870) |
| Credit line received | 1 106 889 | 1 655 440 |
| Finance lease paid | (5 735 430) | (4 016 598) |
| EU funding received | 835 740 | 684 460 |
| Interest paid | (1 325 645) | (1 206 241) |
| Net cash provided by financing activities | 2 014 054 | 161 251 |
| Net decrease / increase in cash and cash equivalents | 808 087 | (492 487) |
| Cash and cash equivalents at the beginning of the year | 1 179 230 | 1 175 121 |
| Cash and cash equivalents at the end of the year | 1 987 317 | 682 634 |

STATEMENT OF SHAREHOLDERS' EQUITY

As at September 30th 2015 and September 30th 2014

| | Share capital | Foreign currency reserve | Other reserves | Retained earnings | Total |
|---|-------------------|--------------------------|------------------|-------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR |
| As of 31st December 2013 | 34 011 197 | 19 071 | 456 130 | 12 926 129 | 47 412 527 |
| Profit of the financial period | - | - | - | 7 155 281 | 7 155 281 |
| Dividends paid | - | - | - | (2 007 869) | (2 007 869) |
| Denomination of share capital to euro | (546 710) | - | 546 710 | - | - |
| Other comprehensive income | - | 656 856 | (1 761 098) | - | (1 104 242) |
| As of 31st December 2014 | 33 464 487 | 675 927 | (758 258) | 18 073 541 | 51 455 697 |
| Profit of the financial period | - | - | - | 6 651 713 | 6 651 713 |
| Dividends paid | - | - | - | (2 811 625) | (2 811 625) |
| Other comprehensive income | - | 443 284 | (71 390) | - | 371 894 |
| As of September 30th 2015 | 33 464 487 | 1 119 211 | (829 648) | 21 913 629 | 55 667 679 |

ANNEX

1. SHARE CAPITAL

The registered share capital of JSC "Valmieras stikla šķiedra" as at September 30th 2015 is EUR 33 464 487. The company's paid share capital registered with the Enterprise Register as at September 30th 2015 is EUR 33 464 487, consisting of 12,408,955 ordinary shares with voting rights and 11,494,250 ordinary shares without voting rights. The nominal value of each share is EUR 1.40.

As at September 30th 2015 and September 30th 2014 the shareholders of the JSC Valmieras stikla šķiedra, in accordance with the records maintained by the Latvian Central Depository, were as follows:

| | 9 months 2015 | 9 months 2014 |
|--|---------------|---------------|
| 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% |
| Valsts sociālās apdrošināšanas aģentūra, VAS | - | 2.4% |
| Preiss-Daimler Beatrix | 5.36% | 4.5% |
| Citi | 8.44 | 6.9% |
| | 100.0% | 100.0% |

2. INFORMATION CONCERNING THE PROFIT OR LOSS ACCOUNT

| | 9 months 2015 | 9 months 2014 |
|--|-------------------|-------------------|
| | EUR | EUR |
| 2.1. Material expenses | | |
| Raw materials | 30 706 534 | 29 928 712 |
| Natural gas | 3 583 693 | 3 832 206 |
| Electricity | 5 429 935 | 5 409 347 |
| Ore processing costs | 437 203 | 515 145 |
| Oxygen | 631 534 | 619 313 |
| Other | 4 678 869 | 4 042 072 |
| Total | 45 467 767 | 44 346 795 |
| 2.2. Personnel expenses | | |
| Salaries | 12 483 968 | 10 956 733 |
| Social security payments | 2 519 456 | 2 275 246 |
| Illness and vacation expenses | 1 256 254 | 867 529 |
| Provisions for remuneration of Board and Council | 517 000 | 740 000 |
| Insurance of employees | 179 615 | 79 927 |
| Other | 1 374 425 | 990 795 |
| Total | 18 330 719 | 15 910 230 |

2.3. Depreciation and amortization

| | | |
|-------------------------------|------------------|------------------|
| Fixed asset depreciation | 7 276 818 | 6 758 425 |
| Depletion of ore | 311 426 | 265 634 |
| Intangible asset amortization | 88 356 | 54 492 |
| Total | 7 676 600 | 7 078 551 |

2.4. Other operating expenses

| | | |
|-------------------------------------|-------------------|-------------------|
| Transportation | 6 336 247 | 5 274 366 |
| Sales commission | 1 582 458 | 1 308 851 |
| Service costs | 1 932 403 | 1 461 336 |
| Spare parts | 1 093 812 | 1 017 606 |
| Repair expenses | 346 056 | 776 267 |
| Insurance | 447 053 | 345 842 |
| Business trips | 780 234 | 693 382 |
| Labour safety and specific clothing | 185 530 | 125 083 |
| Research and development expenses | 348 422 | 288 333 |
| Communications | 167 650 | 113 243 |
| Leasing | 589 497 | 524 023 |
| Office expenses | 124 395 | 202 056 |
| Selling expenses | 152 252 | 91 165 |
| Property tax | 170 508 | 162 428 |
| Increase in doubtful debts | 16 819 | 90 000 |
| Other | 117 814 | 1 210 023 |
| Total | 14 391 149 | 13 684 004 |

3. TRADE RECEIVABLES

| | 30.09.2015 EUR | 30.09.2014 EUR |
|---|---------------------------|---------------------------|
| P-D Glasseiden Oschatz GmbH | 1 338 446 | 1 520 272 |
| P-D Tafneft Fiberglas Alabuga | 296 953 | 473 551 |
| P-D Industriegesellschaft GmbH Bratendorf | 426 520 | 172 938 |
| P-D Interglas Technologies GmbH | 34 156 | 211 595 |
| Preis Daimler FibreGlass AB | 237 635 | |
| Vitrulan Textile Glass GmbH GmbH | 117 610 | 138 725 |
| Vitrulan Technical Textiles GmbH | 507 928 | 297 368 |
| Other trade receivables | 15 296 079 | 15 362 604 |
| Increase in doubtful debts | (179 991) | (204 740) |
| Total | 18 075 336 | 17 972 313 |

For information stated in this financial report please contact:

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