

ANNUAL REPORT

2017

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THE BOARD OF DIRECTORS' REPORT ON BUSINESS ACTIVITIES

Dear shareholders,
Dear business partners,
Dear employees,

The company has achieved very good results in 2017 taking into account its more complicated situation compared to previous years.

We attained another improvement in the area of occupational health and safety, which we consider to be more than preferred. Thanks to that, there were no serious injuries of our employees or contractors' workers.

Compared with 2016, we can see increase in the company's profit after tax, production and quantities sold on approximately the same level and increased turnover. The profit achieved is even more valuable, since the company's costs that the company can't influence relatively increased. These particularly include growing charges for extracted minerals, energies prices, salaries and external services. Therefore, I consider reduction of overhead expenses to be highly valued.

We have started implementation of our principal investment – extension of the dry sand storage facility. Higher capacity shall improve quality of the services provided to our customers. The project is managed professionally and the required parameters are fulfilled.

We obviously mind the lower sales in comparison with 2015 caused by loss of one of our important customers. So much for the results.

New challenges and tasks lie ahead of us in 2018. Charges for extraction keep rising and our turnover is de facto decreasing as a result of the exchange rate of CZK to €. Therefore, we have to strongly focus on production costs controlling. We shall carefully monitor development of the margin % to net sales, which is developing negatively in comparison with previous years. We consider this parameter to be essential, because shows efficiency of our company.

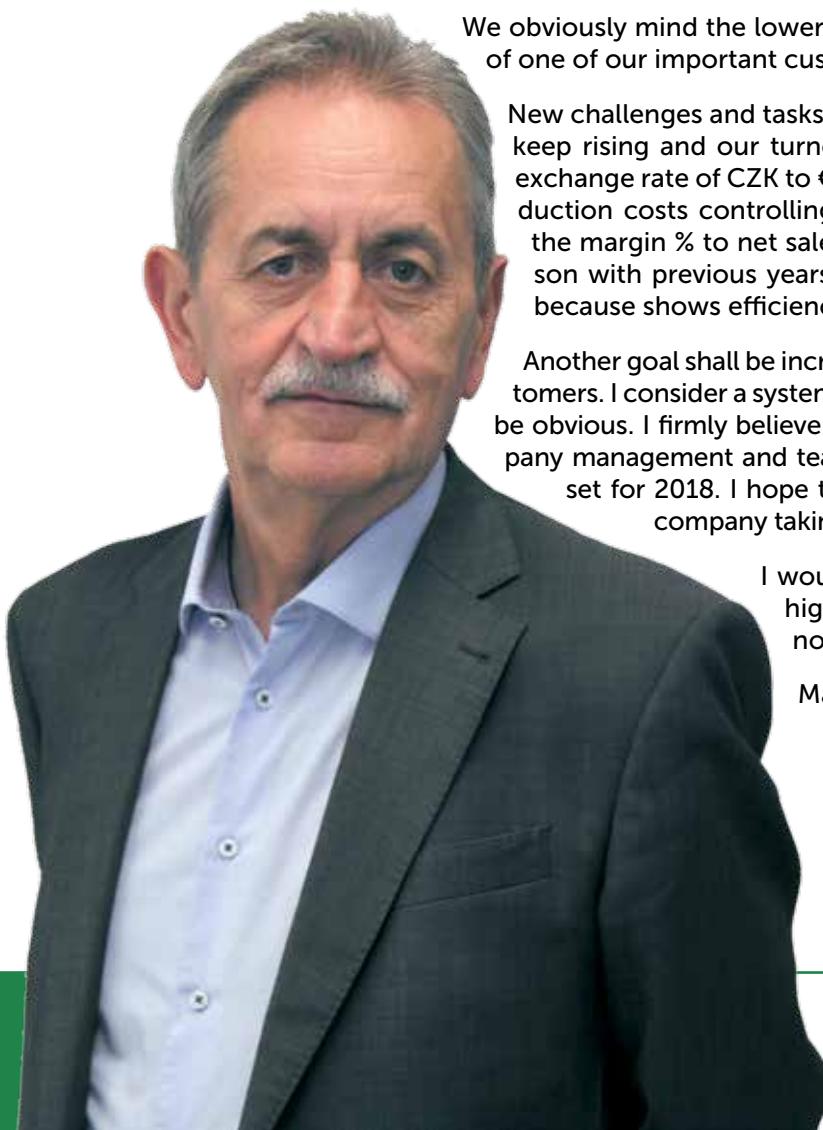
Another goal shall be increase of sales, particularly to key, promising customers. I consider a systematic focus on occupational health and safety to be obvious. I firmly believe that our stable and well communicating company management and team of employees guarantee meeting the goals set for 2018. I hope that our shareholders will keep developing our company taking into account its good performance.

I would like to thank to all our employees for their high-quality and professional work that we cannot do without in the following year.

March 29, 2018



Pavel Šedlbauer
Chairman of the Board of Directors



COMPANY'S PROFILE

The oldest written source of extraction in Střeleč dates back to 1893, in which blocks of sandstone were extracted there for stone-cutting industry. There, they extracted blocks of kaolinic sandstone that was used for socles, facing of buildings, facades of buildings, pavements, stairs, abrasive rings for machines, for glass grinding plants, monuments etc. The sandstone was used at the construction of the Ministry of Trade in Prague, the hospitals in Jilemnice and Jičín and the church in the suburbs of Hradec Králové.

The exceptional qualities of the sands for wide industrial production were discovered by Ing. Dr. Bohuslav Stočes before the 2nd World War, who fully realized their value. Thus, in 1939 the company „První česká úpravna sklářského písku ve Střelci“ (First Czech plant for preparation of glass sand in Střeleč) was established.

Sklopísek Střeleč, a.s. is currently a significant company in the Czech and Central European area. In the area of production capacities and volume of sold silica sands it belongs among the leading suppliers in the Central Europe. It is a reliable supplier and respectable partner supplying sands of high-quality suitable for wide purposes.

The company's premises are situated 10 km in the north-west direction from the town of Jičín. Its production plant has been built in the area of the municipality of Újezd pod Troskami in the village of Hrdoňovice and is equipped with state-of-the-art technologies. Modernisation of the technologies and suitable sources of raw materials allows the company to product silica sands with low content of iron oxide, which is necessary for production of extremely pure glass.

The mining area of 1.7 km² is the largest in the Czech Republic for mining of sands.

The sands produced by the company are the basic raw material for production of crystal glass, glass packagings, plate glass and glass fibre. They are suitable for wide use in foundry industry. Their chemical purity and favourable graininess are also valued in other industrial areas, particularly in electrical and building industries.



„The company gets ahead in all areas of industry thanks to its unique raw material base.“

Application of our products ...

Automotive industry

Car glass, mirrors, fibreglass in plastics – abrasion resistance increase, light bulbs, sparking plugs, brake lining, casting moulds – foundry industry, searchlights...

Information technologies and imaging techniques

Semiconductor industry, display screens, processors (100% purity is necessary), optical fibres...

Housing construction and house

Utility glass, crystal glass, glass panels – windows, doors, showcases etc., modern constructional material for cladding of buildings, fibre-cement boards, constructional concrete, insulation, optical fibres – building components, mortar mixtures, floor mixtures, chandeliers, lighting fixtures, light bulbs, mirrors, pictures, glassware, crystal glass, spreads on cardboards, artistic decorations, coatings, filtering sand for swimming pools, door glass for automatic washing machines, filling sands (extractions, pavements, winter spreading), solar panels, glazing of wall tiles, floor tiles, roof tiles...

Personal use

Jewels, glass decorations, glasses, astronomic telescopes for professionals and amateurs as well, sighting optics, optics of cameras and projectors, oven-ware glass, glassware, hotel glass, toothpastes, components for dental laboratories, glass figures, water glass - part of detergents.

Sports fields – amusement

Beach volleyball, football pitches, golf courses, optic equipment of hunting weapons, tennis courts, playgrounds, arenas for horses, safety glass in enclosures for animals in ZOOs, terrariums, aquariums...

Foundry operations – moulding compounds and sand cores

Rail transport, military technologies, fittings, structural elements, control elements - wheels, levers, heavy and light industry...

Industry – others

Blasting material, paints, glass industrial pipes, laboratory glass, protective and noise reducing barriers along roads, components for production of artificial stone, glass packagings, plugs for bottles...

"We create part of your lives."

MISSION, VISION, STRATEGY

MISSION – why we exist

We produce and sell high quality sand in each grain of sand produced by us taking into account needs of our customers. We behave considerately to the environment.

VISION – what we want achieve

Our wish is to be a modern, safe, environmentally-friendly and prosperous company producing products that can satisfy even the most demanding customers. Tell us what kind of sand you need and we will do our best to produce it for you.

STRATEGY – what we do

We will gradually modernize our technology to be able to produce tailored products and strengthen our preventive measures for occupational health and safety.

We are going to communicate more with the public, customers and other partners. Thanks to our professional team of employees we will work on our company's prosperity and stability.



"We know what we want."

EVENTS 2017

■ **JANUARY** Already traditional meeting of Sklopísek management with significant suppliers took place at the beginning of January. Activities of our suppliers implemented in 2016 including their contribution for Sklopísek were evaluated. The suppliers were also informed about the future prospects of works and supplies for 2017.

■ **FEBRUARY** A presentation day for the company's employees took place on 14 February. We have recapitulated the results of the previous year and presented the goals of the new one.

■ **MARCH** The final audit was performed by KPMG Česká republika Audit, s.r.o. on 13–17 March. Business activities of the company are fully coherent with the Czech accounting principles.

Meeting of the company's employees with the Director took place on 27 March. The main items of the agenda covered the company's ownership structure, statutory bodies and discussion about the company's visions and future. The employees were also informed on investments, repairs, number of employees, average salary and working with costs. We put great emphasis on joint cooperation within the company and the code of ethics.

On 28 March we welcomed a greenkeeper of a golf course in our company. The excursion was organized together with the Czech Greenkeepers Association and was greatly appreciated.

■ **APRIL** A presentation day was organized in the Secondary Technical School in Jičín on 24 April. We presented work of our technical department and possibilities of promising jobs in our company to the students of the 2nd and 3rd grade. It was followed by an excursion of the students in Sklopísek and potential school practice was offered to individual students in machinery maintenance or electrical facilities maintenance.

■ **MAY** Training of voluntary fire-fighters from Liberec Region, who cooperate with professional fire-fighters from Liberec at fire-fighting actions, took place in the area of the quarry on 10–11 May. The training was focused on protection of people in an inaccessible terrain and on water surface.

Meeting of the members of the Board of Directors, the purpose of which was authorization of important projects for further development of our company, took place in Sklopísek on 16 May.

■ **JUNE** Unannounced visit of the Czech Environmental Inspectorate took place on 22 June to audit dustiness. The inspectors have not found any defects or breaches of regulations.

Open day was organized in the premises of our company for the inhabitants of surrounding urban areas on 24 June. They had an opportunity to make a tour in our production premises accompanied by several guides and information materials on our company's history were made available to them on the ground floor of the office building.

The Open day was immediately followed by the Employees day in cooperation with the company MENFIS s.r.o. In addition to an excursion of the production site, the visitors were allowed to enter the office building, where a rich program with attractions and refreshments were prepared for them. Another draw was a historical army vehicles ride in the quarry. Both events were attended by almost 800 people.



Employees day took place on 24 June in the premises of the company Sklopísek Střeleč a. s.

■ **AUGUST** As every year, more than 60 army vehicles arrived to us on 6 August from the Historic vehicles association in Jičín. Crews of the vehicles utilized the rugged terrain in our quarry to put their driving skills and technical excellence of their vehicles to test.

Representatives of the Regional authorities of the Liberec and Hradec Králové regions, representatives of the Ministry of Environment and the Czech Geological Survey visited us on 16 August within the "Updating of the regional raw materials policy of the Liberec Region" project with the aim to carry out a field survey. All participants were familiarized in detail with our company, quality and quantity of raw materials in our deposits and utilisation of our products. They appreciated our exemplary approach to environment and positively evaluated its purity and general appearance of our site.

A concert of Lubomír Brabec (guitar) and Karolína Žmolíková (soprano) took place in the St. John Baptist Church in Újezd pod Troskami on 25 August within a series of concerts of the St. John's Musical Festival supported by Sklopísek Střeleč a. s.

■ **SEPTEMBER** This year, Sklopísek Střeleč again supported the traditional festival "Jičín – the Town of Fairy Tales" with a free supply of sand plus installation of wooden foundations for sandpits in Valdštejn Square.

■ **OCTOBER** A meeting of representatives of the municipalities of Újezd pod Troskami and Mladějov took place on 10 October and 11 October. The visit was commenced with an excursion in the site. After that, activities of Sklopísek were presented to representatives of the municipalities and discussion on future joint cooperation took place afterwards. The meeting took place in a friendly atmosphere and we were very pleased by a positive evaluation by the representatives.

Auditors of the company BUREAU VERITAS CZECH REPUBLIC, spol. s r.o. carried out IMS surveillance audit on 12–13 October. The audit's result was a statement that the system was well-established, fully functional and well-maintained.

■ **NOVEMBER** A regular autumn session of the SPS Board of Directors took place on 7 November in the Brussels headquarters of the company AGC. The agenda covered informing on OHS, job-related injuries, news, noise, dust, sales, business opportunities, employees etc. The Board of Directors acquainted themselves with the anticipated profit for 2017 and approved the plan for 2018.

The traditional 54th Foundry days with accompanying exhibition took place on 7 and 8 November in Brno. It included technical lectures and presentations, which were focused mainly on utilisation and experience of foundries with opening materials – sand. As a result of these presentations, the sand from our deposit was presented as a sand with stable quality and availability in compliance with customers' requirements.

Representatives of Czech and Slovak foundries also exchanged their pieces of knowledge, experience and news in foundry there.

■ **DECEMBER** A pre-Christmas meeting with heads of the councils of surrounding municipalities took place on 12 December. Activities of Sklopísek were presented to the representatives of municipalities and a discussion on joint cooperation in the upcoming year was held.

A traditional company's Christmas party was held in December. New company's employees were introduced, the work of the employees who had been working in the company for 5, 10, 15 and 20 years was appreciated and a symbolic cheque was given to the mother of a disabled boy for his medical treatment at the occasion of this party.

BUSINESS ACTIVITIES

Occupational health and safety (OHS)

Regular training courses in OHS were organized for employees as well as emergency situations drills for the foremen in the production sites. All of these continuously improve literacy in this issue, which directly strengthens the awareness of the fact that OHS is an everyday part of jobs of all employees.

Two job-related injuries leading to incapacity to work incurred during 2017 in spite of all efforts to create a work environment safe for health of employees. Although the injuries were not serious, significant steps were taken to eliminate further occurrence of such injuries.

By replacing old deblocking cabinets in the wet treatment plant due to their unsatisfactory safety with new, lockable cabinets we prevented the hazard of unintentional initiation of a machine.

In May we carried out the annual health and safety inspection, during which we have detected several minor defects, which were removed subsequently by the technical department.

Facilities for visitors were created by refurbishment of the warehouse with personal protective equipment. Our visitors can familiarize themselves with OHS rules and borrow personal and warning equipment there.



„Safety, health and the environment must come first.“

Mining Activities

The extraction works continued in 2017 with the selective mining of glass and foundry sands as required by the production department. During the year, we successfully responded to business requirements and provided raw material for the production of standard products and a new product with a higher content of Fe_2O_3 .

Extraction of raw material below the groundwater level was performed in compliance with a valid permit, thus ensuring perfect use of high-quality glass positions. As part of the extraction of overburden positions we focused on extraction in the north-western site of the deposit to prepare foundry sites for extraction in 2018. Overburden material was deposited on the internal dump formed by upper overburden and hard recovery positions. The inner dump in the north-eastern part was partially reclaimed by topsoil and grassed in compliance with the requirements of the state mining administration office.

In 2017, the quarry operation was visited by representatives of the Hradec Králové and Liberec Regional Authorities, who were involved in the Czech Republic's raw materials policy, and representatives of the Protected landscape area Bohemian Paradise.

In 2017, we also received a new permit for the creation of financial reserves for damage from extraction in addition to the permission for creation of financial reserves for remediation and reclamation. Creation of financial reserves is imposed by the Mining Act and our permit is valid until 2022.

Raw material basis

At mining of glass and foundry sands, the company paid attention to optimum utilisation of raw materials according to content of Fe_2O_3 and grain size range. Suitably selected type of raw materials for the given production is the basic factor in the efforts to increase the period of life and use of all glass and foundry sands in deposit.

The exploratory activities in Střeleč deposit showed no new hazardous places. The current hazardous zones are monitored and marked with safety signs. The exploration of the dangerous area is very important in terms of safe operation.





Measuring of noise and seismology

Constant monitoring of seismic effects of blasting techniques does not show any exceeding of permissible hygienic regulations determined for the object monitored in accordance with CSN 730040. The company still keeps using the constant INSTANTEL MINIMATE + meter that allows transmission of the values measured over a mobile phone and thus it helps the managers to have a good and up-to-date information on the situation in the deposit.

During the year, we have provided 2 measurements of the effects of blasting works on private properties in the vicinity of the quarry. The results meet the required values and are twenty times smaller than the set limit. The year-round noise measurement proved that the noise levels in the outdoor environment were not increased. This way, one of the conditions of mining activities permission was fulfilled.

Measuring of dustiness

Another precondition for permission of mining activities is fulfilled by regular washing and maintenance of the roads and parking areas in the premises of the plant and the sand pit. The cleaning works were extended by a road sweeping wagon, which greatly helps to reduce dustiness in the company premises. Continuous monitoring of dustiness carried out by an authorized agency shows no exceeding of determined limits.

Protection of surface and ground waters

A supplier's company ensures continuous monitoring of surface and underground water in close and wide surrounding of the deposit. The target is the ability to prognosticate the development of ground water in the structures supplying water to public.

The monitoring of 2017 again does not show decrease of water. To the contrary, the water level in the objects monitored is slightly increasing.

For this reason, an application for a new permit was submitted in 2017, which was complied with. The granted permit to reduce the level by an additional 2.5 m will be used particularly for extraction below underground water level in future years.

"We care for environment."

Technical Support

Besides the most important task, which is high-quality assurance of smooth operation of the production facilities, many actions in the field of occupational health and safety, reduction of the level of noise emitted in the processing plant and dust reduction were carried out in 2017, especially in the main sections of the internal roads.

Measures to reduce noise

Our goal is not only to meet hygiene standards but also keep improving the working environment for our employees. Every year, we implement certain measures that improve hygienic parameters. As part of the implemented measures, some obsolete and noisy gearboxes were replaced, noise suppression devices were installed in the air-conditioning equipment, and technical means were modified for more efficient ventilation, particularly during summer, in order to reduce the level of noise emitted to the surroundings. The Company has drawn up an action plan for 2018 for the implementation of further measures, which were designed in the light of the "Significant Noise Sources and Proposal for Further Reduction Measures" study.

The noise reduction measures to be implemented during 2018 were included in the approved investment and repair plan.

Main investments – Construction of new tanks

A major investment project was launched during the previous year – Expansion of the dry sand warehouse. Meanwhile, the main part has been implemented – supply of tanks including structures for their installation. The whole investment project will be completed in 2018.

Enough investment resources help the company to stay in the lead in its branch. At the same time, we put great emphasis on optimisation of all processes and searching financial reserves. Numerous tenders and inquiry processes create an inseparable part of these processes. The priority is to preserve an adequate technical and technological quality of our facilities.



"Our system of preventive maintenance and highly skilled workers form one of the key elements that help the engineering team to plan and implement repairs in the most efficient way."

Sand Production and Processing

Our company Sklopísek Střeleč a.s. is one of the leading European suppliers of glass, foundry, filtering and ground sand. Continuous modernization and the search for new technologies make it possible to extract and refine silica sands with a very low iron oxide content, which are the basic raw material for the production of crystal glass, glass fibres and other products dependent on the purity and durability of our raw materials.

As in previous years, last year we paid our maximum attention to seeking internal savings in costs and our own development. Emphasis was put on optimisation of production processes, synchronisation of all production lines and reduction of downtimes. As a result of our efforts, we are constantly reducing production costs and increasing labour productivity.



As in previous years, Sklopísek Střeleč a.s. again invested considerable funds in the modernization of its technological equipment, particularly in the area of increasing the yield of fine silica sand in the wet treatment plant and increasing the performance and quality of ground silica sand in the dry treatment plant. Thanks to those investments, we increased the company's competitiveness. In addition to the investments that improve performance, quality and productivity, our company has invested a lot of money in improving the working environment. This particularly includes the installation of cuffs in the places determined for the filling of textile bags that are connected to the central extraction, the closure of the entrance part of the dryer by means of a turnstile feeder and the installation of a central vacuum cleaner on the mill II.

The management of the company maximizes its support to innovative proposals. The evidence that we are successful in it is our acceptance of a record number of proposals that started to be implemented without delay within repairs or are gradually being put among the investments planned for the next period. Our company supports these very beneficial activities of our employees in the field of safety, cost savings and improvement of the technical portfolio materially and financially and significantly supports and appreciates every, even small, proposal.

All changes against standard grain size and content of oxides based on a customer's requirements are reflected in the production processes of both treatment plants. For this purpose we were successfully increasing flexibility of the individual production lines, which resulted in our ability to provide the customers with the products according to their requirements.

The company does not perform any research or development on the plant level applicable in accordance with the tax advantages set by the Income Tax Act. It performs research and development in the scope of work of all involved employees focused on constant reduction of cost, increase of performance and optimisation of processes.

„We increase flexibility of our production to be able to accommodate our customers' wishes with maximum efforts to avoid wasting natural resources.“

Business Policy

An essential piece of news from the business area is that the volume of sand sold exceeded the volume of the previous year. We managed to build on the upward trend of previous years' sales. Based on our year-on-year comparison, we sold 10 % more micronized sand and 13 % more dried sand. A wide portfolio of sand, packaging variations, and various market segments provide us with a good position to achieve sales growth in the years to come.

In dealing with customers, we put great emphasis on communication and openness. We have launched new websites www.sklopisek.cz and www.glassand.eu, which will help our customers orient themselves in what we do, what we offer and how our sands can be used. We also presented our products in a number of important events. As an example, we can mention our participation at the Foundry Days in Brno, at the meeting of ČBS (Czech Concrete Association) in Jihlava, where the development of new building materials was discussed, at the international conference of ETS (European Turfgrass Association), ETS Field Days in Brno and IOG (The Institute of Groundsmanship) meeting related to use of sands in sports grassed lawns in Hradec Králové. We presented ourselves at the International Triennial of Glass and Jewellery in Jablonec nad Nisou and at the Greenkeeper Conference at the Agricultural University in Prague-Suchdol.

As the next step in improving our services to our customers, we have extended our loading area with a third dispatching ramp, which significantly shortened the loading time for packed sand. We have also succeeded in expanding our portfolio of products offered with a new technical sand.

We again achieved a significant success in foreign acquisitions. This year, it was primarily the area of southern Europe, where we managed to win new customers from the glass industry. This way, we are successful in breaking through in the markets that require sand with extremely low iron content, thanks to which we are penetrating into the areas with longer transport distances.

We are pleased to be perceived as a reliable and strong partner able to respond to customers' needs. Our production and storage capacities together with our technical equipment and the flexibility of our shipping points allow us to implement immediate and uninterrupted year-round supplies of sand.

www.glassand.eu

The screenshot shows the homepage of the www.glassand.eu website. At the top, there is a navigation bar with links for "ABOUT US", "OUR SANDS", "OUR GLASS", "OUR GLASS", "OUR GLASS", and "OUR GLASS". The main visual is an aerial photograph of a large industrial facility, likely a sand processing plant, surrounded by green fields. Overlaid on this image is the text "Sand from Střelec" and "quality in every grain". Below this, there is a section titled "OUR SANDS" with the subtext "Why sands from Střelec? Because...". There are four small images representing different sand types: "foundry sands", "micro-milled sands", "technical sands", and "dried sands". The "micro-milled sands" image is highlighted with a yellow border.

"Immediate availability of sand and customers' satisfaction are important to us."

Responsibility Awareness

The Company constantly strives to minimize the negative impact of production activities on the environment. This approach stems from our sense of responsibility towards the inhabitants of surrounding communities, but also for maintaining a good environment for future generations. The company represents its awareness of the importance of environmental protection by the introduction and certification of the ISO 14001 management system. Taking into account the surroundings of our company, we are trying to reduce noise and dust levels conceptually and in the long-term, regularly monitor groundwater and our priority is reclamation of lands affected by extraction.

Our primary goal is to ensure the safety and health of our employees and all employees of our cooperating companies. We consciously see to all work activities so that they are carried out applying safe working means. We have worked out and are systematically evaluating and updating the system for identifying and assessing the risks of potential health damage at work. We put emphasis on prevention by continuous educating our employees and training them in the area of occupational health and safety.



We support our region and try to contribute to further improving the quality of life of its inhabitants. Examples include the support to volunteer fire brigades, school facilities and the support provided to the cultural and sporting life of surrounding communities. An integral part of this support is also an aid provided to handicapped children and non-profit organizations. One of such acts was also the support provided to a seriously disabled boy. His mother already received second symbolic cheque at the company's Christmas party.

„We are incessantly searching for the opportunities for improvement of our environment and we are also involved in the life in our region.“

COMPANY'S MANAGEMENT

Situation as of 31st December 2017:



Petr Hübner
Managing Director



Jiří Veselka
Financial
Manager



Zdeněk Müller
Technical
Manager



Zdeněk Novotný
Sales
Manager



Pavel Novák
Production
Manager



Lukáš Horák
Mining
Manager

Board of Directors

Chairman: Pavel Šedlbauer
Member: Otto Lorenz Hieber
Member: Felix Moreno Diaz
Member: Mark Christopher James
Member: Jiří Mašek

Advisory Board

Chairman: Jiří Iša
Member: Ladislav Vostárek
Member: Miloš Daňo

Sklopísek Střeleč, a.s. has no organisational unit abroad.

There were no events as of the date of preparation of the annual report that could significantly affect the financial statements dated December 31, 2017.

www.glassand.eu