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VALMIERAS STIKLA ŠKIEDRA, AS

**EXPLANATION OF THE MANAGEMENT BOARD
ON THE COMPANY'S OPERATIONS IN 2019**

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Subject

Stefan Jugel, Chairman of the Board

- Initiation of the LPP proceedings
- Recovery plan and further steps
- Annual report update, ESG / CG reports
- Financial guidance
- Strengthening the balance sheet



STEFAN JUGEL, CHAIRMAN OF THE BOARD VALMIERAS STIKLA ŠĶIEDRA, AS



INITIATION OF THE LPP PROCEEDINGS FILING AND AIM

- **17 June 2019:** VALMIERAS STIKLA ŠĶIEDRA files an application with Vidzeme District Court in Valmiera for commencement of legal protection proceedings ('LPP') in order to ensure sustainable continuation of group level operations
 - The aim of the LPP process is to allow the company with creditor consent to restructure its liabilities by allowing continuous operation of its key production lines and gain time to reach agreement with its creditors on the procedure of satisfying claims of all creditors.
- **18 June 2019:** the Court approves the application and initiates LPP case; sets deadline for preparation of LPP plan and its coordination with creditors by 19 August 2019

LPP PROCEEDINGS

MAIN FURTHER STEPS

- The business operations and production processes of VALMIERAS STIKLA ŠĶIEDRA continue in full swing
- **LPP is not an insolvency process**
- Until **19 August 2019** - a plan of LPP has to be prepared by VALMIERAS STIKLA ŠĶIEDRA and approved by the creditors
 - The LPP plan shall be approved by the majority of the creditors (**2/3 of secured creditors; and 1/2 (+1) of unsecured creditors**)
 - If necessary, the time for the approval of the LPP plan may be **prolonged for 1 month** (with the consent of 2/3 of secured creditors and 1/2 (+1) of unsecured creditors)
- By **20 August 2019** - the LPP plan (approved by the creditors) has to be submitted to the Court

LPP PROCEEDINGS THE LIST OF CREDITORS

- The list has been sent to all creditors of VALMIERAS STIKLA ŠĶIEDRA on **22 June 2019**
- The creditors are divided into three groups:
 - Secured creditors
 - Unsecured creditors
 - Creditors related to VALMIERAS STIKLA ŠĶIEDRA (shareholders, board members, relatives and relatives in law until the second degree and spouses of the shareholders, board members, persons which are in the same Group with VALMIERAS STIKLA ŠĶIEDRA)
- The suppliers, vendors etc. are included into the costs of the LPP (expenses related to the ensure of the business activity)

LPP PROCEEDINGS SUPERVISOR OF THE LPP

- Majority of the creditors have to consent for the supervisor
- After the approval from the creditors, the candidate must be appointed by the court
- Requirements for the candidates of the supervisor:
 - a private individual with good reputation and expertise in the LPP
 - has not participated in the development of the LPP plan
 - not considered as 'person in relation' to VALMIERAS STIKLA ŠĶIEDRA
 - has not provided an opinion of a sworn auditor regarding the LPP plan
 - has no criminal records; not led any legal entities until bankruptcy by fault
 - has not been suspended or terminated from the mandate of insolvency practitioner, sworn attorney, certified auditor or similar

LPP PROCEEDINGS CONSEQUENCES

- **Suspension** of the enforcement of judgments in matters re the recovery of funds or other obligations, or recovery in a speedy manner
- **Restriction** for the secured creditors to request the sale of the pledged property (except when the secured creditor has requested the Court to allow the sale of the pledged property and the court has made the respective decision)
- **Restriction** for the creditors to submit an application for the insolvency proceedings of VALMIERAS STIKLA ŠĶIEDRA
- **Restriction** to perform the liquidation of VALMIERAS STIKLA ŠĶIEDRA
- **Suspension** of increase of the contractual penalty
- **Suspension** of such an increase of the interest, which exceeds the statutory interest, except the rate specified by the European Central Bank
- **Suspension** of the increase of late payment charges
- **Suspension** of the calculation of the late charges of tax claims

LPP PROCEEDINGS RESTRICTIONS

- The **restriction** to VALMIERAS STIKLA ŠĶIEDRA and creditors to perform individual activities which could cause harm to the interests of the creditors
- VALMIERAS STIKLA ŠĶIEDRA **has the right** to conclude the agreements and arrange other activities in the ordinary course of business
- The calculation of the late charges of tax claims are **suspended**
 - Applies only to the tax debt for the period until the day when the LPP is initiated.
 - In accordance with the tax legislation, after the LPP is initiated VALMIERAS STIKLA ŠĶIEDRA is obliged to make all ordinary tax payments in due time
- The expenses that relates to ensuring the business activity of VALMIERAS STIKLA ŠĶIEDRA **are considered as the costs** of the LPP, which must be fully covered from the funds of VALMIERAS STIKLA ŠĶIEDRA
 - Costs of the LPP shall be indicated in the LPP plan

LPP PROCEEDINGS COURT APPROVAL

- The Court examines and decides on approval (or rejection) of the LPP plan within **15 calendar days** (i.e., starting from 20 August 2019)
- If the court approves the LPP plan and declares LPP proceedings, the maximum term of the LPP is 2+2 years
- The LPP plan, once approved by the Court, is binding to all creditors, including those who did not support it
- The LPP plan can only be amended with the creditors consent and the Court approval
- Secured creditors may not exercise their rights in respect of the property specified in the LPP plan until the termination of the LPP

RECOVERY PLAN FURTHER CONSIDERATIONS

- VALMIERAS STIKLA ŠĶIEDRA has concluded an agreement with SIA «Deloitte Latvia» regarding development of the Company's Recovery plan
- The Company is currently looking for appointment of a mediator to negotiate between financing banks and VALMIERAS STIKLA ŠĶIEDRA

ANNUAL REPORT UPDATE PUBLISHING ESG, CG REPORTS

- Prior to 17 June 2019 LPP announcement, auditors requested further additional information on the US operations to that which was sought earlier, preventing a timely sign-off (with audit opinion).
 - Currently anticipated to be distributed **by 16 September 2019**
- Timely versions have been available for the ESG and Corporate Governance Reports
 - In the interests of transparency and good relations with our various stakeholders we have made these available on **17 June 2019**, rather than awaiting the publication of the annual report.

FINANCIAL GUIDANCE WITHDRAWN FOR NOW

- We provided financial guidance for 2019 and 2020 results
 - This was predicated on a successful turnaround in the US operations
- Updated guidance for 2019 and 2020 will now be delayed
 - At a minimum this needs to await a sign-off of the LPP plan with creditors
 - Annual report is essential finalize the actual balance sheet as of end 2018
- Latvian and UK operational update
 - Both divisions are performing in line with expectations
 - Healthy cash generation has been shadowed by problematic US operations

STRENGTHENING THE BALANCE SHEET

MAIN PRIORITY RIGHT NOW

- Balance sheet strength even more a priority now
 - Having plans in place for creating a strong balance sheet run hand in hand with creating a sustainable long-term business.
- Possible methods (under consideration) to be applied in LPP
 - Staying payment settlement
 - Disposal, encumbrance of property or real estate
 - Increase of share capital, including replacement of claims by shares
 - Reorganisation
 - Other (in line with the goals of the LPP)

THANK YOU!