VALMIERA® GLASS

**Consolidated and separate financial statements for the year 2018 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and Independent Auditors' Report**

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|---|---|
| NAME OF THE PARENT COMPANY | Valmieras stikla šķiedra |
| LEGAL STATUS | Joint stock company |
| REGISTRATION NUMBER, PLACE AND DATE | No. 40003031676<br>Riga, 30 September 1991 |
| TYPE OF BUSINESS | Production of glass fibre products |
| ADDRESS | 13 Cempu Street, Valmiera, LV- 4201, Latvia |
| SUBSIDIARIES | Valmiera Glass UK Ltd<br>Reg. No 2189095 (100%)<br>Sherborne, Dorset DT9 3RB<br>United Kingdom<br><br>P-D Valmiera Glass USA Corporation,<br>Reg. No 14036662 (52.21%)<br>168 Willie Paul Parkway,<br>Dublin, GA 31021,<br>United States of America<br><br>Valmiera Glass USA Trading Corporation,<br>Reg. No 14036664 (100%)<br>168 Willie Paulk Parkway,<br>Dublin, GA 31021,<br>United States of America |
| THE BOARD | Chairman of the Board:<br>Stefan Jugel (from 29.05.2018.)<br>Andre Heinz Schwiontek (till 28.05.2018.)<br><br>Members of the Board:<br>Ģirts Vēveris (from 29.05.2018.)<br>Ingo Bleier (from 01.08.2019.)<br>Stefan Jugel (till 28.05.2018.)<br>Andre Heinz Schwiontek (from 29.05.2018. and until 01.08.2019.)<br>Doloresa Volkopa (until 01.06.2019.) |
| THE COUNCIL | Chairman of the Council:<br>Heinz-Jürgen Preiss-Daimler<br><br>Members of the Council:<br>Stefan Alexander Preiss-Daimler (from 25.05.2018.)<br>Jöran Pfuhl<br>Andris Oskars Brutāns<br>Ainārs Ozols (from 28.06.2019.)<br>Theis Klauberg (from 28.06.2019.)<br>Hans Peter Cordts (till 31.12.2018.)<br>Frank Wilhelm Behrends (till 25.05.2018.) |
| REPORTING YEAR | 1 January 2018 - 31 December 2018 |
| PRIOR REPORTING YEAR | 1 January 2017 - 31 December 2017 |
| AUDITORS AND THEIR ADDRESS | KPMG Baltics AS<br>Licence Nr.55<br>Vesetas street 7, Riga,<br>LV-1013, Latvia |

**STATEMENT**

Dear shareholders,

Our Group passed in 2018 through one of the most difficult years in its history. Despite the good earnings situation of our two European companies and the associated good cash flows, we were unable to finance the commissioning of the large-scale investment in the USA from our own funds. As a result, we were forced to partially sell shares of our US subsidiary in order to carry out the commissioning with the funds raised and additional loans from our major shareholders.

This situation has meant that, especially in the fourth quarter of 2018, our Latvian plant did not have sufficient funds available for vital maintenance and repairs. Despite these problems, our Latvian and British companies were able to deliver excellent results and prove their robustness. Looking at these positive results in Europe, the situation in the USA was even more unsatisfactory for the board and all those involved.

After the situation in January and February was stabilized by a change of management in the US and the provision of additional funds by the shareholders, the US Company moved back into a continuous downward trend from March 2019. The countermeasures taken by management, such as the limiting the production output, were unable to stop this trend or even intensified it.

From May 2019, the US subsidiary could no longer be financed by the Latvian parent company without risking significant damage to the European companies. Following the warranty claim from the US branch of LBBW Bank towards the Group's Parent company to settle the liabilities of the US subsidiary, we decided on 17 June to apply for an Legal Protection Proceedings ("LPP") procedure in Latvia, and to initiate Chapter 11 proceedings under the U.S Bankruptcy Code of the US subsidiary on the same day.

Within the twelve weeks from June 17 to September 19, we were able to negotiate agreements with our creditors, so that an LPP plan was filed with the majority approval of the creditors in court, and further approved on October 18 by the District Court of the Vidzeme region. This 24-month LPP plan is now the key and guiding roadmap for us, governing creditors' satisfaction, investment in our machinery and equipment, and our overall economic performance. Our goal is to achieve investment grade status after 24 months, as we will need to refinance our remaining bank credit in the month of November 2021. Until then, we want to work intensively on our profitability, our market position and our product quality, and take the steps for our long-term development so that our shareholders can again receive a valuation of their shares that corresponds to our efficiency.

Since we have not transferred any funds to the USA since June 2019, cash flow and raw material supply situation of the European plants has slowly but steadily improved so that from August 2019 the full European production capacity can be fully utilized again. Our customers were able to feel this through delivery reliability and product quality and this will also be reflected in our EBITDA margins of the last quarter.

Despite the poor results and forecasts of the last three stock market reports, the share price has deteriorated less than anticipated in the circumstances. This shows us that you continue to believe in our business model and our company. We thank you for your support in these difficult times and take this as incentive to do everything possible to meet your expectations as a shareholder.

THIS DOCUMENT IS SIGNED WITH SAFE ELECTRONIC SIGNATURE AND CONTAINS TIMESTAMP

Stefan Jugel
Chairman of the Management board

## GENERAL INFORMATION

AS VALMIERAS STIKLA ŠĶIEDRA and its subsidiaries ('the Group') is one of the leading glass fibre manufacturers in Europe, with more than 55 years of experience in the production of glass fibre. Group's core business areas are glass fibre research, glass fibre product development, production and trade.

During the reporting period Group consisted of the parent company VALMIERAS STIKLA ŠĶIEDRA ('the Company' or the "Parent Company") and its subsidiaries VALMIERA GLASS UK Ltd. ('UK subsidiary') in the United Kingdom, P-D Valmiera Glass USA Corporation ('US subsidiary') and VALMIERA GLASS USA Trading Corporation ('US trading subsidiary') in the United States of America.

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 Company specializes in manufacturing glass fibre (also "fiberglass") 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 $SiO_2$-glass with a temperature resistance of 1000+°C. The glass fibre production of the Company is used for further processing, in technical (electrical, thermal and acoustic) insulation materials and as finished materials in mechanical engineering, construction, and elsewhere.

The UK subsidiary produces glass fibre products for the aviation industry, smoke and fire protection, thermal insulation applications and architecture, and the US subsidiary manufactures glass fibre and specific glass fibre products mainly as a raw material for the manufacturing of other glass fibre products.

## MARKETS

In 2018, the products of Group were sold in 47 countries across the world, and the export share of total sales of the Company reached 97%.

The key markets of Group have remained the same as last year: 75% (2017: 70%) of the total output were sold in European Union countries, 12% (2017: 10%) in North America, 2% (2017: 4%) in CIS countries, and 11% (2017: 16%) in other countries such as Switzerland, Japan, South Korea, UAE, and etc. Notable 11% increase in sales amount was observed in the North American market compared to the same period last year.

Across product segments, sales volumes increased for high value-added products, such as E-glass fibre textured fabrics and non-woven materials with a thermal resistance of 600+°C, as well as for the high-content $SiO_2$ glass fibre non-woven materials with a thermal resistance of 1000+°C. In 2018, the sales of these products increased on average by 53 % compared to the same period in 2017. In other product segments, the sales volumes are considered as stable.

## EMPLOYEES

As of 31st December, 2018, the Group employed on average 1702 employees, of which 1108 were employed by the Company. The UK subsidiary employed on average 131 employees and the US subsidiary, located in the USA, employed on average 463 employees. The workforce of the Group in 2018 was increased by more than 250 employees, including 75 new workplaces in Valmiera.

## QUALITY MANAGEMENT

The quality management systems of all Group companies are certified according to the requirements of standard ISO 9001: 2015. The Company has also certified Environmental Management System (ISO 14001: 2015) and Energy Management System (ISO 50001: 2011).

## INVESTMENTS

The focus of investments in 2018 was on finalizing the construction and start-up of the US investment. The investments in US subsidiary were made in two stages: Phase 1 (needle mat production), which was realized from 2014 – 2016 and Phase 2. As of 31 December 2018, EUR 94.08 million were invested in Phase 2 facility (the vertically-integrated fibreglass yarn producing operation) production line. The Latvian site and the plant in the UK had to financially support this, so they only carried out maintenance investments on a minimal scale. Despite the limited investment funds in the Company and UK subsidiary, both Companies operated with full production capacity and showed good operational results.

Due to problems with the import of equipment and the problematic performance of several suppliers, the Phase 2 was started in January 2018 with a delay of approx. 6 weeks. The biggest challenge during the year 2018 was to provide enough qualified personnel and management to handle the production volumes.

After the problems continued up to the fourth quarter of 2018 and there was no improvement in the yield, the Executive Board again increased pressure and changed the entire operational management of the US subsidiary. Furthermore, a local strategic investor was involved in the US subsidiary, which was expected to provide additional financial support for a quick turnaround.

From the end of February 2019, the management team of US subsidiary were reinforced by an experienced American turnaround manager and the provision of European technical staff and financial resources has been increased.

All these measures did not work out, so due to significant unexpected losses during the extended start-up phase of US subsidiary's Phase 2 operations, the US subsidiary was forced to stop its Phase 2 Fiberglass furnace operation on 17 June, 2019. Simultaneously, the US subsidiary filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court for the Northern District of Georgia.

The Phase 1 - Needle Mat division is working in the ordinary course of business.

Due to the Chapter 11 proceeding, US subsidiary attracted M&A professionals to market the assets of the US subsidiary. The intention is to find a buyer for the furnace operation and to continue with the needle-mat operation. There is also an alternative possibility that an investor will make an attractive offer on the assets of the needle-mat operation and the furnace collectively.

Chapter 11 is a procedure under the US bankruptcy code to recognise a distressed company. In comparison to the Chapter 7 process, which would be a total liquidation of all assets, the Chapter 11 process permits the continued operation of parts or the whole organisation in a controlled way. All cash balances and accounts receivables formally belong to the creditors. To allow US subsidiary to operate, cash collateral budget was approved to pay salaries, raw materials, etc.

Based on the above, the US subsidiary has recognized 100% impairment allowances for its investments in tangible and intangible fixed assets. The Company, in turn, has recognized impairment allowances for its financial investment, loans granted and trade receivables from the US subsidiary as at 31 December 2018.

**FINANCIAL RESULTS**

In 2018, the Company and UK subsidiary worked with good operating results. Nevertheless, they could not offset the losses related to results of operations of the US subsidiary. In 2018, the consolidated net sales of the Group reached EUR 114.2 Million. Compared to year 2017, net sales of the Group have decreased by EUR 11.6 Million (or 9.2% y-o-y) due to a shortage of internal materials supply and the delay in ramp up in the US subsidiary. Contrary to the practice of the previous years, the management consistently paid attention to the margin quality of purchased traded goods and semi-finished products, so that despite the lower absolute sales levels, the Company and UK subsidiary were able to achieve their earnings targets. In general, the demand situation was such that the planned turnover was achievable, had the production volume goals been attained.

Despite the good performance of the Company and UK subsidiary, and contrary to the forecasts of the previous report for Q3 2018, the turnover of the US subsidiary in 2018 could not be achieved. The main reasons above all were the still unstable personnel situation and the inconsistent management of technical problems in all areas of production. This was taken into account in the fourth quarter of 2018 and in January 2019, during which the entire operational management board was swapped out and key management positions were also replaced as outlined above.

In January 2018, 9% of US subsidiary shares were sold to P-D management Industries-Technologies GmbH for EUR 2 400 000.

In September 2018, the Group increased the share capital and attracted a strategic investor for the US subsidiary – 10% of US subsidiary shares were sold to Lamtec Corporation on 28 September 2018. The total value of transaction amounted to USD 10 000 000 (EUR 8 734 000). As the result of the transaction, the Company retained control in US subsidiary owning, as a result of dilution, 52.21% of its share capital.

Overall, the operating and financial results of the US subsidiary negatively affected the main financial performance indicators of the Group, as well as its liquidity situation.

In 2018, the Group could not meet the financial covenants provided by the loan agreements with A/S Danske Bank and AS SEB Bank. On 28 December 2018, A/S Danske Bank and AS SEB Bank issued a waiver letter, where confirmed that both Banks would not exercise their rights to terminate the concluded loan agreements, if additional shareholder loan financing will be provided. Accordingly, in January 2019 Mr. John Post (Lamtec Corporation) granted a loan of USD 6.0 million to US subsidiary, and P-D Management Industries Technologies GmbH and Mr. Heinz-Jürgen Preiss-Daimler granted EUR 5.0 million and EUR 1.5 million loans, respectively, to the Company. All additional shareholder loans were received in agreed time.

**MAIN FINANCIAL INDICATORS OF GROUP**

| TEUR | 2014 | 2015 | 2016 | 2017 | 2018 |
|---:|---:|---:|---:|---:|---:|
| Net sales | 108 441 | 121 192 | 124 814 | 125 864 | 114 245 |
| EBITDA | 17 758 | 16 149 | 17 752 | 18 441 | (98 602) |
| EBIT | 8 389 | 6 851 | 7 204 | 7 317 | (113 165) |
| Net profit/ -loss attributable to the owners of the Parent | 7 155 | 5 475 | 4 741 | 7 053 | (56 904) |
| Sales growth,% | 24.0% | 11.8% | 3.0% | 0.8% | -9.2% |
| EBITDA margin, % | 16.4% | 13.3% | 14.22% | 14.7% | -86.3% |
| EBIT margin, % | 7.7% | 5.7% | 5.8% | 5.8% | -99.1% |
| Net profit margin, % | 6.6% | 4.5% | 3.8% | 5.6% | -49.8% |
| ROE,% | 14.5% | 10.3% | 8.7% | 10.82% | -184.6% |
| ROA,% | 5.82% | 4.11% | 3.37% | 4,06% | -54.28% |
| ROCE,% | 9.1% | 7.1% | 5.27% | 9.18% | -363.7% |
| Current ratio | 1.43 | 1.25 | 1.11 | 0.35 | 0.58 |
| Earnings per share (EUR) | 0.2993 | 0.2291 | 0.2011 | 0.2951 | (2.3807) |

The Group's EBITDA amounted to EUR -98.6 million, EUR 117.04 million less than in 2017. EBITDA margin decreased from 14.7% in 2017 to -86.3% in 2018. The Group's net result for year 2018, attributable to the owners of the Parent, amounted to EUR –56.9 million.

It must be noted that, both EBITDA and net result for year 2018 are significantly affected by one-off items such as increase in the amount of impairment allowances for tangible and intangible assets of US subsidiary (EUR 99.34 million).

The Group's exceptionally weak EBITDA performance and negative net result of 2018 reflect the operating and financial issues of US subsidiary, as described in other sections of the Management Report.

## MAIN FINANCIAL INDICATORS OF THE COMPANY

| TEUR | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Net sales | 91 701 | 103 262 | 101 413 | 104 039 | 90 549 |
| EBITDA | 16 764 | 15 351 | 13 453 | 14 020 | (66 640) |
| EBIT | 8 082 | 6 845 | 4 132 | 3 866 | (76 570) |
| Net profit/ -loss | 7 028 | 5 486 | 2 373 | 4 252 | (91 126) |
| Sales growth,% | 9.7% | 12.6% | -1.8% | 2.6% | -13.0% |
| EBITDA margin, % | 18.3% | 14.9% | 13.3% | 13.5% | -73.6% |
| EBIT margin, % | 8.8% | 6.6% | 4.1% | 3.7% | -84.6% |
| Net profit margin, % | 7.7% | 5.3% | 2.3% | 4.1% | -101.7% |
| ROE,% | 14.2% | 10.3% | 4.4% | 7.5% | -720.5% |
| ROA,% | 6.01% | 4.38% | 1.87% | 2.42% | -97.94% |
| ROCE,% | 9.1% | 7.5% | 4.6% | 5.8% | -229.0% |
| Current ratio | 1.19 | 0.98 | 0.89 | 0.48 | 0.42 |
| Earnings per share (EUR) | 0.294 | 0.2295 | 0.1021 | 0.1779 | (3.8541) |

The EBITDA of the Company amounted to EUR -66.6 million, EUR 80.6 million less than in 2017. EBITDA margin decreased from 13.5% in 2017 to -73.6% in 2018. The Company's net result for year 2018 amounted to EUR –91.1 million.

Both the Company's net result and EBITDA margin of 2018 are significantly affected by one-off items such as increase in the amount of impairment allowances for financial investments, loans and trade receivables related to US subsidiary (EUR 98.4 million).

In 2018, the Company's exceptionally weak EBITDA performance and negative net result reflect the operating and financial issues of US subsidiary, as described in other sections of the Management Report.

| Definition of Alternative Performance Measures | Formulas of APM |
|---|---|
| **EBITDA:** Earnings before interest, tax, depreciation and amortisation. EBITDA shows company's profitability with existing assets and activities in production and sales. | *Operating profit + depreciation and amortisation* |
| **EBIT:** Earnings before interest and taxes. Earnings before and taxes measures the profit a company generates from its operations, making it synonymous with operating profit. | *Operating profit* |
| **Net profit (loss)**: The actual profit after working expenses not included in the calculation of gross profit have been paid. | *Earnings after interest and taxes (Profit for the year)* |

| | |
|---|---|
| **ROA, %:** Indicator of how profitable a company is relative to its total assets. The indicator reflects how effectively company is profiting from the use of its assets | *Net profit attributable to the shareholders of the Company / Average Total assets for the period* |
| **ROE %:** Measure of financial performance calculated by dividing net income by shareholders' equity.) The indicator reflects the effective use of equity capital by the company. | *Net profit attributable to the shareholders of the Company / Average Total equity for the period* |
| **ROCE, %:** Measures a company's profitability and the efficiency with which its capital is used. | *EBIT/Total assets-current liabilities* |
| **EBITDA margin, %:** Assessment of a firm's operating profitability as a percentage of its total revenue. | *EBITDA / Net sales* |
| **EBIT margin/operating profit margin, %:** operating earnings over operating sales. | *EBIT / Net sales* |
| **Net profit margin, %:** The net profit margin is equal to how much net income or profit is generated as a percentage of revenue. | *Net profit / Net sales* |
| **Earnings per share (EUR):** The portion of a company's profit allocated to each share of common stock. | *Net profit attributable to the shareholders of the Company/ weighted avarage common shares outstanding* |
| **Current ratio**: The ability of a party to use current assets to settle current liabilities. | *Current assets / Current liabilities* |

The above - described alternative performance measures ('APM') are used by Group's management to evaluate Group's performance for a particular financial period. These APM are also used to make decisions.

**LEGAL PROTECTION PROCEEDING IN THE COMPANY**

As a result of the Landesbank Baden-Württemberg New York branch ('LBBW Bank') request to the Company to immediately repay the loan granted to the US subsidiary together with interest accrued in the amount of USD 3 013 149 according the Company's issued guarantee (detailed described in the Note 35 to the financial statements) on 10 June, 2019 and cash flow difficulties, on June 17, 2019 the Company filed an application in the court regarding LPP, and Vidzemes District Court has passed a decision on 18 June 2019 to initiate the LPP of the Company. In order to continue sustainable operations and to ensure for the possibility of reaching a sustainably-workable agreement with its creditors, the Company needed to ensure unhindered and continuous operation of its key production lines and gain time to reach agreement with its creditors on the procedure to meet liabilities of all creditors.

On September 19, 2019 the Company filed an application with the Court for approval of the plan of measures of LPP and the implementation of the LPP. The Company received consent from 100% of secured creditors and 77.15% of unsecured creditors for the 24 month financial recovery plan developed by the Company. The LPP Plan, developed by the Company, is available in the website of Nasdaq Riga: https://www.nasdaqbaltic.com/.

Vidzeme District Court approved Jānis Lagzdiņš, place of practice: PricewaterhouseCoopers Legal, Kr. Valdemāra Street 21, Riga, as a Supervisor of Company's legal protection process.

According to developed LPP plan, the total liabilities of the Company at the date of preparation of LPP plan in 2019 amount to EUR 118 333 109 out of which:

1) payment obligations to unsecured creditors amount to EUR 27 286 867 including EUR 19 411 304 due to creditors treated as "related companies" within the meaning of Corporate Income Tax Law;
2) total payment obligations to Secured Creditors: in the amount of EUR 91 046 242 out of which the payment obligations to AS SEB Bank amount to EUR 45 477 443 and the payment obligations to AS Danske Bank amount to EUR 45 568 799.

In order to implement the LPP successfully and attain the objective of the LPP, namely, to restore the ability of the Company to pay debts due, the Company will apply the following approaches:

1) partial postponement and re-scheduling of payment terms by the Company (principal secured creditor claims);
2) settling the payment obligations of the Company (Ancillary Claims);
3) alienation of the Company's share in the capital of the US subsidiary and/or its properties and/or investment into the Company by third parties;
4) entering into an agreement with secured creditors (related parties) to partially postpone the performance of payment obligations after implementation of the LPP;
5) postponement of satisfaction of principal creditor claims and break-down of payment obligations into obligations maturing within 24 months;
6) undertaking by the Company to secure availability of additional funding in the amount of EUR 5 000 000.

The principal obligations of the Company which fell due or became payable prior to LPP will be paid in accordance with the LPP plan. The payment schedule for most of the creditors is 24 months. The exceptions are:

1) unsecured creditor LBBW Bank, with who the Company entered into a written agreement on 4 September 2019 setting forth the terms and conditions of repayment by the Company of its claims in terms less favourable to LBBW Bank as other unsecured creditors, namely, within 48 months starting from October 2019;

2) both secured creditors, with who the Company entered into agreement whereby Secured Creditors will agree to accept performance by the Company of its obligations during LPP and postpone the maturity date of other obligations of the Company against Secured Creditors until after completion of LPP.

   Starting from 1 January 2020, the Company shall direct EUR 500 000 monthly toward repayment of the principal claims outstanding to the Secured Creditors. In March 2020, the Company shall make a separate payment toward repayment of the Principal Claim in the amount of EUR 35,000,000. It is planned, that Company will receive this amount from selling the share in US subsidiary belonging to the Company and/or ensure sale of pledged properties of the US subsidiary and/or ascertain investment into the US Subsidiary by third parties. Moreover, during LPP, the Company shall be paying to the Secured Creditors the compensation for the restriction of creditor rights.

   The postponement of the term of repayment to secured creditors will allow the Company to stabilise cash flow during implementation of LPP and, ultimately, help satisfy creditor claims. In applying such approach within the framework of LPP, the Company will be taking into consideration the data included into the Income and Expenditure Forecast of Appendix to the LPP plan.

3) with related parties agreement was set to postpone the performance of payment obligations under after LPP, except P-D Refractories CZ a.s.

**FUTURE OUTLOOK**

One of the highest priorities in next two years for management team of the Company will be intensive work on successful requirement fulfilment under LPP plan and US subsidiaries Chapter 11 procedure together with management team and stakeholders of US subsidiary. Please read more about Group's subsequent events and going concern in Notes 36 and 38 of this financial statement.

**STOCK MARKET**

The Company's shares are quoted on the secondary list of Nasdaq Riga stock exchange since 24 February 1997 (ISIN LV0000100485; ID: VSS1R). The number of shares in public circulation amounts to 23 903 205.

The share price has dropped by 38.92% in the course of 2018. During the reporting period, the share price fluctuated within the limits from EUR 2.26 (lowest share price) to EUR 3.96 (highest share price). During this period, the average weighted share price amounted to EUR 3.18. The share price of the first transaction at the beginning of the period amounted to EUR 3.56, whereas the share price of the last transaction at the end of the period amounted to EUR 2.26.

The market value of the share capital at the end of the reporting period: EUR 54.02M.

In 2018, the number of shares traded by the joint stock company reached 200 906 and the turnover of shares amounted to EUR 0.64M. During this period, 589 transactions were performed with the Company.

**Price dynamics of Company's shares from 2014 to 2018 (Nasdaq Riga data[1]):**


In 2018, the price of Company's shares dropped by 38.92%, while the OMX Riga index value decreased by 6.74% and OMX Baltic Benchmark GI decreased by 7.44%.

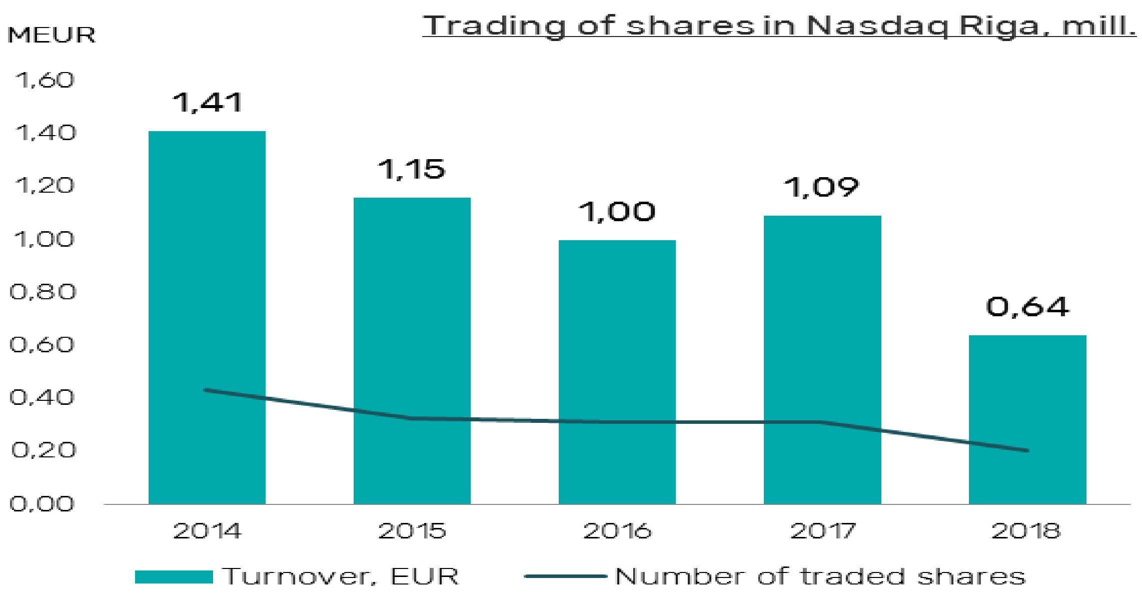
[1] www.nasdaqbaltic.com

**The price of Company's shares in 2018 compared to OMX Baltic Benchmark GI and OMX Riga indexes (Nasdaq Riga data[2]):**


| INDEX \| EQUITY | OPENING VALUE | CLOSING VALUE | CHANGE % |
|---|---|---|---|
| OMX Baltic Benchmark GI | 944.09 | 873.81 | -7.44 |
| OMX Riga | 996.13 | 929.02 | -6.74 |
| VSS1R - Valmieras stikla šķiedra | 3.7 | 2.26 | -38.92 |

**During the period of the last 5 years, a decrease was observed in the number of traded shares by 46% and a decrease in turnover by 45%, compared to 2014 (Nasdaq Riga data[3]):**

[2] www.nasdaqbaltic.com
[3] www.nasdaqbaltic.com




**EVENTS AFTER THE END OF THE REPORTING PERIOD**

In addition to the matters already discussed elsewhere in this report and matters disclosed in Note 35 to the financial statements:

1. On September AS Danske Bank and AS SEB bank has terminated concluded Loan agreements with the Company. On September 16. 2019 the Company concluded with AS Danske Bank and AS SEB bank an agreement, which provides partial principal debt repayment during the LPP, payments for AS Danske Bank and AS SEB bank for the restriction of its rights during the LPP and other actions to improve Company`s financial position.

2. On November 1, 2019 the Company started cooling and emptying high silica oxide content glass melting furnace No. 3.0 in Latvia in order to stop the furnace and begin the scheduled reconstruction.

   The reconstruction work took place from November 1 to November 29, 2019. On December 3, 2019, the first glass fibre from the reconstructed glass melting furnace was made. It is planned that the reconstruction will result in 38% increase in the production capacity of the furnace, which is expected to have a positive impact on the availability of high silica oxide content glass and its products. On December 5, 2019, 93% of the planned daily production capacity of the furnace have been reached. Full capacity of the glass melting furnace is due to be reached in the first quarter of 2020.

As of the publishing date of these Consolidated and separate financial statements, the Management Board of the Company revokes all previous announcements related to the financial results for year 2018.

The management of the Company is responsible for the preparation of the separate and consolidated financial statements of the Company and the Group ('financial statements').

The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company and the Group as of 31 December 2018 and the results of their operations and cash flows for period of 12 months 2018. The management confirms that appropriate 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. The management also confirms that the requirements of International Financial Reporting Standards as adopted by the EU have been complied with and that the financial statements have been prepared on a going concern basis.

The management of the Group is also responsible for maintaining proper accounting records, for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent fraud and fraudulent activities, and other irregularities.

6 December , 2019

On the Company's behalf by:

THIS DOCUMENT IS SIGNED WITH SAFE ELECTRONIC SIGNATURE AND CONTAINS TIMESTAMP

Stefan Jugel
Chairman of the Management Board

| | Notes | Group | | |
|---|---|---|---|---|
| | | **31.12.18.** | **31.12.17. (restated)** | **31.12.16. (restated)** |
| | | **EUR** | **EUR** | **EUR** |
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| **Intangible assets** | | | | |
| Software, licences, patents, trademarks, similar rights | 4 | 871 120 | 973 318 | 869 605 |
| Software in acquisition process | 4 | 94 052 | 14 700 | - |
| Goodwill | 5 | 3 662 559 | 3 692 694 | 3 826 612 |
| **Total intangible assets** | | **4 627 731** | **4 680 712** | **4 696 217** |
| **Property, plant and equipment** | | | | |
| Land and buildings | 6 | 10 846 392 | 15 761 318 | 17 243 174 |
| Equipment and machinery | 6 | 43 744 062 | 54 939 092 | 60 432 170 |
| Other fixed assets | 6 | 765 468 | 1 035 040 | 1 158 916 |
| Construction in progress | 6 | 433 023 | 71 400 627 | 5 952 882 |
| Advance payments for fixed assets | 6 | 501 664 | 13 163 703 | 348 704 |
| **Total property, plant and equipment** | | **56 290 609** | **156 299 780** | **85 135 846** |
| **Non-current financial investments** | | | | |
| Prepaid expenses | 11 | 204 119 | 206 831 | 235 322 |
| **Total non-current financial investments** | | **204 119** | **206 831** | **235 322** |
| **Deferred tax asset** | 30 | 904 799 | 1 185 747 | 1 923 581 |
| **Total non-current assets** | | **62 027 258** | **162 373 070** | **91 990 966** |
| **CURRENT ASSETS** | | | | |
| **Inventories** | | | | |
| Raw materials | 7 | 11 449 745 | 9 114 716 | 10 480 108 |
| Work in progress | | 8 375 109 | 4 376 754 | 5 101 279 |
| Finished goods | 8 | 12 646 548 | 12 519 827 | 17 095 254 |
| Advance payments for inventories | | 361 324 | 177 455 | 300 805 |
| **Total inventories** | | **32 832 726** | **26 188 752** | **32 977 446** |
| **Debtors** | | | | |
| Trade receivables | 9 | 7 833 674 | 11 948 523 | 10 118 616 |
| Amounts due from related parties | 33 | 74 152 | 337 091 | 971 131 |
| Other receivables | 10 | 797 378 | 2 170 076 | 1 057 173 |
| Deferred expenses | 11 | 916 696 | 777 887 | 788 516 |
| **Total debtors** | | **9 621 900** | **15 233 577** | **12 935 436** |
| **Cash and cash equivalents** | 12 | **349 477** | **2 633 591** | **2 958 952** |
| **Total current assets** | | **42 804 103** | **44 055 920** | **48 871 834** |
| **TOTAL ASSETS** | | **104 831 361** | **206 428 990** | **140 862 800** |

The accompanying notes on pages 24 to 79 are an integral part of these financial statements.

The financial statements were signed on the Company's behalf by:

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

| | Notes | Group | | |
|---|---|---|---|---|
| | | 31.12.18. | 31.12.17. (restated) | 31.12.16. (restated) |
| | | EUR | EUR | EUR |
| **LIABILITIES AND EQUITY** | | | | |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 13 | 33 464 487 | 33 464 487 | 33 464 487 |
| Foreign currency translation reserve | | (4 197 550) | (3 084 475) | (257 191) |
| Other reserves | 13 | (3 000 141) | (3 145 849) | (3 418 157) |
| Retained earnings | | | | |
| Profit/(loss) brought forward | | 34 716 628 | 23 294 253 | 18 553 340 |
| Result for the current reporting year | | (56 905 879) | 7 053 059 | 4 740 913 |
| **Total equity attributable to owners of the parent** | | **4 077 545** | **57 581 475** | **53 083 392** |
| **Non-controlling interest** | | (44 749 801) | 7 642 772 | 1 056 658 |
| **Total equity** | | **(40 672 256)** | **65 224 247** | **54 140 050** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 55 426 558 | - | 25 928 430 |
| Borrowings from other related parties | 33 | 5 557 348 | 2 850 884 | - |
| Finance lease | 15 | 329 282 | 9 817 | 65 907 |
| Finance lease from related parties | 33 | 86 875 | 86 875 | 164 000 |
| Other borrowings | 16 | 1 118 528 | 1 245 964 | 1 620 204 |
| Deferred tax liabilities | | 582 202 | 676 831 | 2 917 078 |
| Defined benefit obligation | 20 | 4 372 128 | 5 282 734 | 6 713 542 |
| Deferred income | 21 | 3 701 669 | 4 218 087 | 4 727 469 |
| Derivative | 34 | 616 514 | 137 543 | 431 006 |
| **Total non-current liabilities** | | **71 791 104** | **14 508 735** | **42 567 636** |
| **Current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 30 445 265 | 83 707 698 | 23 534 569 |
| Borrowings from other related parties | 33 | 350 000 | - | - |
| Finance lease | 15 | 169 056 | 56 453 | 68 804 |
| Finance lease from related parties | 33 | - | 95 460 | 111 000 |
| Other borrowings | 16 | 186 525 | 178 080 | 202 610 |
| Contract liabilities | | 3 084 813 | 323 469 | 121 902 |
| Trade payables | | 25 608 632 | 33 123 509 | 12 933 844 |
| Payables to other related parties | 33 | 4 850 913 | 1 499 342 | 814 585 |
| Taxes and social security contributions | 17 | 2 258 816 | 2 251 251 | 1 081 115 |
| Other accounts payable | 18 | 1 569 948 | 946 851 | 1 001 015 |
| Accrued liabilities | 19 | 3 746 910 | 3 069 452 | 2 855 183 |
| Defined benefit obligation | 20 | 950 220 | 958 038 | 992 782 |
| Deferred income | 21 | 491 415 | 486 405 | 437 705 |
| **Total current liabilities** | | **73 712 513** | **126 696 008** | **44 155 114** |
| **Total liabilities** | | **145 503 617** | **141 204 743** | **86 722 750** |
| **TOTAL EQUITY AND LIABILITIES** | | **104 831 361** | **206 428 990** | **140 862 800** |

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

| | Notes | Group | | |
|---|---|---|---|---|
| | | 2018 | 2017 (restated) | 2016 (restated) |
| | | EUR | EUR | EUR |
| Sales | 22 | 114 245 302 | 125 863 712 | 124 813 876 |
| Change in inventories | | 2 642 638 | (1 562 776) | 3 513 231 |
| Costs capitalized to non-current assets | 6 | 1 524 807 | 2 089 341 | 373 928 |
| Other operating income | 23 | 2 749 307 | 1 888 490 | 1 061 603 |
| Raw materials and consumables | 24 | (56 343 440) | (63 209 671) | (67 309 367) |
| Personnel expenses | 25 | (40 116 935) | (28 641 326) | (26 748 430) |
| Depreciation and amortization | 26 | (14 562 787) | (11 124 339) | (10 548 173) |
| Impairment loss on trade receivables and contract assets | 34 | (64 964) | - | (55 354) |
| Other operating expenses | 27 | (123 238 804) | (17 986 765) | (17 897 108) |
| **Profit/(loss) from operations** | | **(113 164 876)** | **7 316 666** | **7 204 206** |
| Finance income | 28 | 2 884 408 | 320 541 | 735 380 |
| Finance costs | 29 | (3 886 432) | (1 533 641) | (1 609 794) |
| **Profit/(loss) before tax** | | **(114 166 900)** | **6 103 566** | **6 329 792** |
| Corporate income tax | 30 | (543 747) | 1 374 462 | (1 626 580) |
| **Profit/(loss) for the year** | | **(114 710 647)** | **7 478 028** | **4 703 212** |
| *Attributable to:* | | | | |
| **Non-controlling interest** | | **(57 804 768)** | **424 969** | **(37 701)** |
| **Owners of the Parent** | | **(56 905 879)** | **7 053 059** | **4 740 913** |
| **Earnings per share** | 31 | **(2.3807)** | **0.2951** | **0.1983** |
| **Other comprehensive income** | | | | |
| Remeasurement of defined benefit obligation | 20 | 416 979 | 340 385 | (3 084 349) |
| Deferred income tax relating to defined benefit obligation | 20 | (271 271) | (68 077) | 617 924 |
| Exchange differences on translating foreign operations | | (1 113 075) | (2 827 284) | (2 199 820) |
| **Other comprehensive income for the year, attributable to owners of the Parent** | | **(967 367)** | **(2 554 976)** | **(4 666 245)** |
| Exchange differences on translating foreign operations attributable to non-controlling interest | | (1 352 113) | (1 258 745) | 12 319 |
| **Total other comprehensive income** | | **(2 319 480)** | **(3 813 721)** | **(4 653 926)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **(117 030 127)** | **3 664 307** | **49 286** |

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

| | Notes | Company 31.12.18. EUR | 31.12.17. (restated) EUR | 31.12.16. (restated) EUR |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| **Intangible assets** | | | | |
| Software, licences, patents, trademarks, similar rights | 4 | 871 119 | 891 188 | 869 605 |
| Software in acquisition process | 4 | 94 052 | 14 700 | - |
| **Total intangible assets** | | **965 171** | **905 888** | **869 605** |
| **Property, plant and equipment** | | | | |
| Land and buildings | 6 | 10 093 046 | 11 281 645 | 11 986 984 |
| Equipment and machinery | 6 | 42 469 174 | 49 845 789 | 54 185 137 |
| Other fixed assets | 6 | 654 878 | 794 236 | 842 693 |
| Construction in progress | 6 | 433 023 | 204 798 | 4 271 168 |
| Advance payments for fixed assets | 6 | 444 920 | 449 975 | 290 994 |
| **Total property, plant and equipment** | | **54 095 041** | **62 576 443** | **71 576 976** |
| **Non-current financial investments** | | | | |
| Investments in subsidiaries | 5 | 13 000 000 | 29 974 974 | 15 502 974 |
| Loans to subsidiaries | 33 | - | 30 358 012 | 3 798 620 |
| Receivables from related parties | | - | - | 3 123 773 |
| **Total non-current financial investments** | | **13 000 000** | **60 332 986** | **22 425 367** |
| **Total non-current assets** | | **68 060 212** | **123 815 317** | **94 871 948** |
| **CURRENT ASSETS** | | | | |
| **Inventories** | | | | |
| Raw materials | 7 | 7 219 555 | 7 482 361 | 8 880 818 |
| Work in progress | | 4 796 309 | 3 928 721 | 4 656 039 |
| Finished goods | 8 | 6 663 733 | 5 374 952 | 9 195 641 |
| Advance payments for inventories | | 160 701 | 131 574 | 181 681 |
| **Total inventories** | | **18 840 298** | **16 917 608** | **22 914 179** |
| **Debtors** | | | | |
| Trade receivables | 9 | 4 225 028 | 6 008 184 | 4 835 448 |
| Receivables from subsidiaries | 33 | 686 771 | 25 791 469 | 5 270 730 |
| Amounts due from related parties | 33 | 1 718 | 319 336 | 971 136 |
| Other receivables | 10 | 656 994 | 1 987 742 | 667 024 |
| Deferred expenses | 11 | 513 599 | 391 117 | 732 506 |
| **Total debtors** | | **6 084 110** | **34 497 848** | **12 476 844** |
| **Cash and cash equivalents** | 12 | **60 455** | **304 401** | **161 062** |
| **Total current assets** | | **24 984 863** | **51 719 857** | **35 552 085** |
| **TOTAL ASSETS** | | **93 045 075** | **175 535 174** | **130 424 033** |

The accompanying notes on pages 24 to 79 are an integral part of these financial statements.

The financial statements were signed on the Company's behalf by:

THIS DOCUMENT IS SIGNED WITH SAFE ELECTRONIC SIGNATURE AND CONTAINS TIMESTAMP

Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

| | Notes | Company | | |
|---|---|---|---|---|
| | | 31.12.18. | 31.12.17. (restated) | 31.12.16. (restated) |
| **LIABILITIES AND EQUITY** | | **EUR** | **EUR** | **EUR** |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 13 | 33 464 487 | 33 464 487 | 33 464 487 |
| Other reserves | 13 | 546 709 | 546 709 | 546 709 |
| Retained earnings | | | | |
| Profit/(loss) brought forward | | 24 836 473 | 20 584 320 | 18 210 387 |
| Result for the current reporting year | | (92 125 893) | 4 252 153 | 2 373 933 |
| **Total equity** | | **(33 278 224)** | **58 847 669** | **54 595 516** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 55 426 558 | - | 25 928 430 |
| Borrowings from subsidiaries | 33 | 4 372 589 | 2 316 705 | 2 700 000 |
| Borrowings from other related parties | 33 | 3 895 000 | 2 850 884 | - |
| Finance lease | 15 | - | 9 817 | 65 907 |
| Finance lease from related parties | 33 | 86 875 | 86 875 | 164 000 |
| Deferred tax liabilities | | - | - | 2 620 915 |
| Deferred income | 21 | 2 318 364 | 2 699 149 | 3 079 934 |
| Derivative | 34 | 616 514 | 137 543 | 431 006 |
| **Total non-current liabilities** | | **66 715 900** | **8 100 973** | **34 990 192** |
| **Current liabilities** | | | | |
| Borrowings from credit institutions | 14 | 27 159 727 | 82 819 969 | 23 138 575 |
| Borrowings from other related parties | 33 | 350 000 | - | - |
| Finance lease | 15 | 9 817 | 56 453 | 68 804 |
| Finance lease from related parties | 33 | - | 95 460 | 111 000 |
| Contract liabilities | | 947 023 | 260 612 | 107 340 |
| Trade payables | | 16 045 018 | 17 596 365 | 11 648 562 |
| Payables to subsidiaries | 33 | 3 355 126 | 1 189 782 | 816 630 |
| Payables to other related parties | 33 | 3 345 431 | 1 046 045 | 812 297 |
| Taxes and social security contributions | 17 | 1 322 667 | 1 923 249 | 771 688 |
| Other accounts payable | 18 | 886 468 | 799 088 | 812 590 |
| Accrued liabilities | 19 | 5 805 338 | 2 418 725 | 2 170 055 |
| Deferred income | 21 | 380 784 | 380 784 | 380 784 |
| **Total current liabilities** | | **59 607 399** | **108 586 532** | **40 838 325** |
| **Total liabilities** | | **126 323 299** | **116 687 505** | **75 828 517** |
| **Total equity and liabilities** | | **93 045 075** | **175 535 174** | **130 424 033** |

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

| | Notes | Company | | |
|---|---|---|---|---|
| | | 2018 | 2017 (restated) | 2016 (restated) |
| | | EUR | EUR | EUR |
| Sales | 22 | 90 549 430 | 104 038 817 | 101 413 172 |
| Change in inventories | | 1 271 809 | (3 455 708) | 2 062 749 |
| Costs capitalized to non-current assets | 6 | - | 31 478 | 262 351 |
| Other operating income | 23 | 2 181 097 | 1 741 537 | 2 076 879 |
| Raw materials and consumables | 24 | (42 249 879) | (54 049 089) | (58 150 885) |
| Personnel expenses | 25 | (20 982 303) | (20 293 020) | (19 706 858) |
| Depreciation and amortization | 26 | (9 929 512) | (10 153 882) | (9 321 099) |
| Impairment loss on loans, trade receivables and contract assets | 34 | (81 197 964) | - | - |
| Other operating expenses | 27 | (13 592 294) | (13 994 376) | (14 503 842) |
| **Profit/(loss) from operations** | | **(73 949 616)** | **3 865 757** | **4 132 467** |
| Finance income | 28 | 3 144 418 | 629 594 | 832 929 |
| Finance costs | 29 | (21 162 887) | (2 864 113) | (1 321 463) |
| **Profit/(loss) before tax** | | **(91 968 085)** | **1 631 238** | **3 643 933** |
| Corporate income tax | 30 | (157 808) | 2 620 915 | (1 270 000) |
| **Profit/(loss) for the year** | | **(92 125 893)** | **4 252 153** | **2 373 933** |
| **Earnings per share** | 31 | **(3.8541)** | **0.1779** | **0.0993** |

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

**Group**

| | Share capital | Foreign currency translation reserve | Other reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| **31.12.16.** | **33 464 487** | **(257 191)** | **(3 418 157)** | **24 044 472** | **53 833 611** | **1 056 658** | **54 890 269** |
| Restatements (Note 37) | - | - | - | (750 219) | (750 219) | - | **(750 219)** |
| **31.12.16., restated** | **33 464 487** | **(257 191)** | **(3 418 157)** | **23 294 253** | **53 083 392** | **1 056 658** | **54 140 050** |
| Profit for the reporting period | - | - | - | 8 216 112 | **8 216 112** | 424 969 | **8 641 081** |
| Restatement of the profit for the reporting period (Note 37) | - | - | - | (1 163 053) | **(1 163 053)** | - | **(1 163 053)** |
| Contribution from non-controlling interest | - | - | - | - | **-** | 7 419 890 | **7 419 890** |
| Other comprehensive income: | | | | | | | |
| *Remeasurement of defined benefit obligation* | - | - | 340 385 | - | **340 385** | - | **340 385** |
| *Deferred income tax relating to defined benefit obligation* | - | - | (68 077) | - | **(68 077)** | - | **(68 077)** |
| *Exchange differences on translating foreign operations* | - | (2 827 284) | - | - | **(2 827 284)** | (1 258 745) | **(4 086 029)** |
| **31.12.17., restated** | **33 464 487** | **(3 084 475)** | **(3 145 849)** | **30 347 312** | **57 581 475** | **7 642 772** | **65 224 247** |
| Current year profit/(loss) | **-** | **-** | **-** | (56 905 879) | **(56 905 879)** | (57 804 768) | **(114 710 647)** |
| Sale of non-controlling interest | **-** | **-** | **-** | 312 725 | **312 725** | 2 087 275 | **2 400 000** |
| Contribution from non-controlling interest | **-** | **-** | **-** | 4 056 591 | **4 056 591** | 4 677 033 | **8 733 624** |
| Other comprehensive income: | | | | | | | |
| *Remeasurement of defined benefit obligation* | **-** | **-** | 416 979 | **-** | **416 979** | **-** | **416 979** |
| *Deferred income tax relating to defined benefit obligation* | **-** | **-** | (271 271) | **-** | **(271 271)** | **-** | **(271 271)** |
| *Exchange differences on translating foreign operations* | **-** | (1 113 075) | - | - | **(1 113 075)** | (1 352 113) | **(2 465 188)** |
| **31.12.18.** | **33 464 487** | **(4 197 550)** | **(3 000 141)** | **(22 189 251)** | **4 077 545** | **(44 749 801)** | **(40 672 256)** |

The accompanying notes on pages 24 to 79 are an integral part of these financial statements.

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

**Company**

| | Share capital | Other reserves | Retained earnings | Total |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| **31.12.16.** | **33 464 487** | **546 709** | **21 334 539** | **55 345 735** |
| Restatement (Note 37) | | | (750 219) | (750 219) |
| **31.12.16., restated** | **33 464 487** | **546 709** | **20 584 320** | **54 595 516** |
| Profit for the reporting period | - | - | 5 415 207 | **5 415 207** |
| Restatement of the profit for the reporting period (Note 37) | - | - | (1 163 054) | **(1 163 054)** |
| **31.12.17.** | **33 464 487** | **546 709** | **24 836 473** | **58 847 669** |
| Current year profit/(loss) | - | - | (92 125 893) | **(92 125 893)** |
| **31.12.18.** | **33 464 487** | **546 709** | **(67 289 420)** | **(33 278 224)** |

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | **2017 (restated)** | **2018** | **2017 (restated)** |
| | | **EUR** | **EUR** | **EUR** | **EUR** |
| **Cash flows from operating activities** | | | | | |
| Profit/ (loss) before tax | | (114 166 900) | 6 103 566 | (91 968 085) | 1 631 238 |
| *Adjustments:* | | | | | |
| Change in fair value of derivative | 28 | 478 971 | (293 463) | 478 971 | (293 463) |
| Depreciation and amortization | 26 | 14 562 785 | 11 124 339 | 9 929 512 | 10 153 882 |
| Change in impairment allowances | 4-6,33 | 102 570 869 | - | 94 262 438 | - |
| (Profit)/ loss from disposal of property, plant and equipment, net | | (94 400) | - | (94 400) | (55 354) |
| Profit from sale of share in subsidiaries | | - | - | (121 915) | - |
| Past service cost defined benefit | | 449 859 | | | |
| Interest expenses | 29 | 2 959 412 | 1 359 917 | 3 170 260 | 1 311 934 |
| Interest income | 28 | - | (27 077) | (2 318 772) | (17 753) |
| Income on government grants | 23 | (792 216) | (923 355) | (380 785) | (396 361) |
| **Changes in working capital:** | | | | | |
| (Increase) / decrease in inventories | | (6 437 143) | 6 788 696 | (1 922 690) | 5 996 569 |
| Decrease / (increase) in trade and other receivable | | 5 614 389 | (4 093 943) | 11 491 298 | (14 269 837) |
| (Decrease) / increase in trade and other payable | | (506 034) | 6 932 735 | 6 837 379 | 7 192 150 |
| Interest paid | | (3 575 203) | (1 494 125) | (3 390 640) | (1 343 223) |
| Income tax paid | | (444 703) | - | (2 098) | - |
| **Cash provided by operating activities** | | ***619 686*** | ***25 477 290*** | ***25 970 473*** | ***9 909 782*** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment and intangible assets | | (16 465 555) | (70 634 723) | (1 242 655) | (1 541 350) |
| Investments in share capital of subsidiaries | | - | - | - | (14 472 000) |
| Income from sales of investment in subsidiary shares to non-controlling shareholders | | 8 668 436 | - | - | - |
| Loans to related parties | | - | - | (30 566 325) | (30 358 012) |
| Income from sales property, plant and equipment | | 130 159 | - | 130 159 | 512 142 |
| Income from sales of investment in related party shares to non-controlling shareholders | | - | - | 2 400 000 | - |
| Received interest | | - | 27 077 | - | 17 753 |
| **Net cash used in investing activities** | | **(7 666 960)** | **(70 607 646)** | **(29 278 821)** | **(45 841 467)** |
| **Cash flows from financing activities** | | | | | |
| Income from non-controlling interest contribution | | - | 7 419 890 | - | - |
| Loans received | | 18 181 631 | 52 700 214 | 13 344 539 | 46 678 779 |
| Loans repaid | | (13 266 558) | (16 003 399) | (10 128 224) | (10 458 225) |
| Finance lease paid | | (151 913) | (161 106) | (151 913) | (161 106) |
| Received government grants | | - | 849 396 | - | 15 576 |
| **Net cash (used in) / provided by financing activities** | | **4 763 160** | **44 804 995** | **3 064 402** | **36 075 022** |
| **Net change in cash and cash equivalents** | | **(2 284 114)** | **(325 361)** | **(243 946)** | **143 339** |
| Cash and cash equivalents at the beginning of reporting period | | 2 633 591 | 2 958 952 | 304 401 | 161 062 |
| **Cash and cash equivalents at the end of reporting period** | 12 | **349 477** | **2 633 591** | **60 455** | **304 401** |

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Stefan Jugel, Chairman of the Board

Ģirts Vēveris, Member of the Board

Mārtiņš Blaus, Finance Director

## 1. GENERAL INFORMATION

AS Valmieras stikla šķiedra is registered as a joint stock company in the Commercial Register of the Republic of Latvia. The principal activity of the Group is production and trade of fibreglass and fibreglass products.

The Group consists of parent company AS Valmieras stikla šķiedra and its subsidiaries Valmiera Glass UK (previously – P-D Integrlas Technologies Ltd.), Valmiera Glass USA Corporation and Valmiera Glass USA Trading Corporation. The principal activity of the Group is production and trade of fibreglass and fibreglass products.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (the EU) and their interpretations. The standards are issued by the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

### *I. Initial application of new amendments to the existing standards effective for the current reporting period*

The Group and the Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with the date of initial application of 1 January 2018.

#### (i) IFRS 9 Financial Instruments (2014) (effective for annual periods beginning on or after 1 January 2018)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

The Group and the Company has adopted IFRS 9 with the effective date of 1 January 2018 retrospectively; the Group and the Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements.

The Group and the Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements.

There is no impact of adopting IFRS 9 on opening balance, except for classification of financial instruments.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's and Company's financial assets and financial liabilities as at 1 January 2018.

**Group**

| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|
| **Receivables from customers** | Loans and receivables | Amortized cost | 12 285 614 | 12 285 614 |
| **Other debtors** | Loans and receivables | Amortized cost | 2 170 076 | 2 170 076 |
| **Cash and equivalents** | Loans and receivables | Amortized cost | 2 633 591 | 2 633 591 |
| | | | 17 089 281 | 17 089 281 |

| Financial liabilities | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|
| **Borrowings** | Other financial liabilities | Other financial liabilities | 87 982 626 | 87 982 626 |
| **Trade payables** | Other financial liabilities | Other financial liabilities | 34 622 851 | 34 662 851 |
| **Other liabilities** | Other financial liabilities | Other financial liabilities | 3 198 102 | 3 198 102 |
| **Derivative financial instruments** | Financial liabilities at FVTPL | Financial liabilities at FVTPL | 137 543 | 137 543 |
| **Finance lease** | Other financial liabilities | Other financial liabilities | 248 605 | 248 605 |
| | | | 126 189 727 | 126 189 727 |

**Company**

| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|
| **Receivables from customers** | Loans and receivables | Amortized cost | 6 327 520 | 6 327 520 |
| **Loans to related parties** | Loans and receivables | Amortized cost | 25 791 469 | 25 791 469 |
| **Other debtors** | Loans and receivables | Amortized cost | 1 987 742 | 1 987 742 |
| **Cash and equivalents** | Loans and receivables | Amortized cost | 304 401 | 304 401 |
| | | | 34 411 132 | 34 411 132 |

| Financial liabilities | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
|---|---|---|---|---|
| **Borrowings** | Other financial liabilities | Other financial liabilities | 87 987 558 | 87 987 558 |
| **Trade payables** | Other financial liabilities | Other financial liabilities | 19 832 192 | 19 832 192 |
| **Other liabilities** | Other financial liabilities | Other financial liabilities | 2 722 337 | 2 722 337 |
| **Derivative financial instruments** | Financial liabilities at FVTPL | Financial liabilities at FVTPL | 137 543 | 137 543 |
| **Finance lease** | Other financial liabilities | Other financial liabilities | 248 605 | 248 605 |
| | | | 110 928 235 | 110 928 235 |

As a result of the adoption of IFRS 9, the Group and the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's and the Company's approach was to include the impairment of trade receivables in other expenses.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. See subsection *Impairment of non-derivative financial assets* of *Section Financial instruments – policy applicable from 1 January 2018* of Note 3 ''Accounting policies''.

**(ii) IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)**

This Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities shall adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Group and the Company has adopted IFRS 15 with the effective date of 1 January 2018. The Group's and the Company's accounting policy has been updated to reflect the terminology in the new standard, but it has had no impact on financial results reported in the current or comparative periods. There has been no restatements of profit or loss for comparative periods.

**(iii) Other standards**

The following guidance with effective date of 1 January 2018 did not have any effect on these financial statements:

- *Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*
- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- *Amendments to IAS 40 Transfers of Investment Property*
- *Annual Improvements to IFRSs (Amendments to IFRS 1 and IAS 28)*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
-

***II. New Standards and Interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements.

- **IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)**

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting, however, shall remain largely unchanged, and the distinction between operating and finance leases will be retained.

It is expected that the IFRS 16, when initially applied, will have a significant impact on the financial statements, since it will require the Group and the Company to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Group or the Company acts as a lessee.

The Group and the Company will recognise new assets and liabilities for its operating leases of premises and precious metals. The nature and expenses related to those leases will now change because the Group and the Company will recognise a depreciation charge for right-of-use assets and interest expense on the lease liabilities. Previously, the Group and the Company recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised. Based on the information currently available, the Group and the Company estimates that it will recognise additional right-of-use asset and lease liability of EUR 1 648 thousand respectively as at 1 January 2019.

The Group and the Company plans to apply IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group and the Company also plans to apply the practical expedient to grandfather the definition of lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Company does not plan to adopt the following new standards, amendments to standards and interpretations early. The Company has assessed the potential impact from new standards and does not expect the new standards to have a material impact on the financial statements.

- *IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)*
- *Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019)*
- *Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)*
- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU)*
- *Annual Improvements to IFRSs (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019, not yet adopted by the EU))*
- *Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)*
- *Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)*
- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely.)*
- *IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU)*

## 3. ACCOUNTING POLICIES

***Foreign currencies***

The accompanying financial statements are presented in the currency of the European Union, the Euro (hereinafter – EUR), which is the Company's functional and presentation currency. The functional currencies of subsidiaries are GBP and USD.

In preparing the financial statements of each individual group entity, transactions in currencies other than the company's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign subsidiaries are translated into EUR using exchange rate prevailing at the end of each reporting period. Income and expense items are translated at average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity as Foreign currency translation reserve, relevant part of which is allocated to non-controlling interest.

All transactions and balances in foreign currencies are converted into euro after the European Central Bank exchange rate. Financial Reporting currency rates for 1 EUR:

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| GBP | 0.89453 | 0.88723 |
| RUB | 79.71530 | 69.3920 |
| SEK | 10.25480 | 9.84380 |
| CHF | 1.12690 | 1.1702 |
| USD | 1.14500 | 1.1993 |

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group and its subsidiaries. Control is achieved when the Group has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group's ownership interests in existing subsidiaries*
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amounts by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

***Business combinations***

Acquisitions of businesses, including acquisitions under common control in situations the common control transaction has commercial substance, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively.

Goodwill is measured as the excess of the sum of the consideration transferred over the fair value of net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

***Investments in subsidiaries***

Investments in subsidiaries in the Company's separate financial statements are recognized at cost less impairment losses. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable amount.

***Intangible assets***

*Goodwill*
Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is recognized.

*Other intangible assets*
Software licences and patents are stated at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation of the assets is calculated using the straight-line method to allocate their cost over their estimated useful lives. Generally, the software licences and patents are amortised over a period of 3 to 10 years.

***Tangible fixed assets***

Tangible fixed assets are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition.

Precious metal plates, which are used in manufacturing, are classified as fixed assets and depreciated using units of production method based on actual intensity of use. For other fixed assets depreciation is calculated using the straight-line method applying the following annual depreciation rates:

| | |
|---|---|
| Buildings | 4-6.7% |
| Equipment and machinery | 6.7-25% |
| Other fixed assets | 10-40% |

Land is not depreciated.

The estimated annual depreciation rates and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate recoverable amount of an individual asset, the Group estimates the value of cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of sale and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

***Inventories***

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

If necessary, allowance is made for obsolete, slow moving and defective stock.

***Revenue recognition***

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue at the point of time when it transfers control of a product or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

| | **Performance of performance obligations and payment terms** | **Revenue recognition** |
|---|---|---|
| **Sale of goods** | Goods (and all risks and benefits associated with the ownership) are transferred to the customers in accordance with Incoterms specified in the sales contract and / or invoice.<br><br>30 to 60-day payment terms apply, or prepayment is required depending on the availability of customer's credit insurance and / or credit risk assessment.<br><br>Under the Group's standard contract terms, customers have a right of return within 6 months.<br><br>The customers have a right of refund, early payment discounts and volume bonuses. Please see more details below.<br><br>The sales contracts do not contain significant financing components. | Revenue is recognised when the goods are delivered in accordance with the sales agreement Incoterms.<br><br>The Group recognises revenue when or as the performance obligation is satisfied, net of the amount of cash discount expected to be taken.<br><br>The Group provides early payment discounts to its clients. The Group estimates the amount of variable consideration to which it will be entitled by using the 'most likely amount' method. The Group recognises revenue when or as the performance obligation is satisfied, net of the amount of cash discount expected to be taken.<br><br>For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.<br><br>Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated. The Group estimates the amount of variable consideration to which it will be entitled by using the 'most likely amount' method. |

| | | |
|---|---|---|
| | | At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned.<br><br>The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent insignificant level of returns over previous years. |
| **Transport services** | Transport services are deemed to be provided when the transport services have been completed (transported goods have been delivered to the customer).<br><br>30 to 60-day payment terms apply.<br><br>No discounts and bonuses apply.<br><br>The service contracts do not contain significant financing components. | Revenue from services is recognised in the accounting period in which the transportation services are completed (goods delivered to clients). |
| **Management and consulting services** | Services are deemed to be provided when a customer has confirmed complete or partial service delivery. In the case of long-term consulting contracts, services are deemed to be provided at a constant rate on monthly basis in accordance with the agreement.<br><br>30 to 60-day payment terms apply.<br><br>No discounts and bonuses apply.<br><br>The service contracts do not contain significant financing components. | Revenues are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total amount of services to be provided. |

The contract assets primarily relate to the Group's rights to consideration for services provided but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities relate to advance payments received from customers which will be recognized as revenue during 2019 when respective customer orders are fulfilled.

***Segment information***

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Please refer to Note 22.

***Retirement benefit costs***

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income;
- remeasurement due to change in actuarial assumptions.

The Group presents the first two components of defined benefit costs in profit or loss in the line item Personnel Expenses and Interest expense/ income. Remeasurement comprises actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is recognized in other comprehensive income and accumulated within Other reserves in equity.

***Financial instruments - policy before 1 January 2018***

i. Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available for sale financial assets and loans and receivables. This classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash and other similar items) are measured at amortised cost using the effective interest method, less any impairment.

*Impairment of financial assets*
The Group assesses, at each balance sheet date, whether there is objective evidence that a loan or trade receivable is impaired. The Group assesses each loans and trade receivable on an individual basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows discounted with original effective interest rate.

ii. Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

*Financial liabilities at fair value through profit or loss*
The Group enters into certain derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.

Interest rate swaps are contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps involve the exchange of fixed and floating interest payments. The notional amount on which the interest payments are based is not exchanged.

Foreign exchange contracts (forwards) are contracts for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. The Group does not hold derivative financial instruments which were designated and effective as hedging instruments.

*Borrowings and trade payables*
Borrowings and trade payables are initially measured at fair value, net of transaction costs.

Loans and trade payables are subsequently measured at amortized cost using the effective interest rate method.

The effective interest rate method provides financial liabilities calculating the amortized cost and interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period.

***Financial instruments - policy applicable from 1 January 2018***

*Recognition and initial measurement*

Trade receivables and debt instruments issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

i. Financial assets

*Classification and subsequent measurement*

On initial recognition, a Group's and Company's financial assets is classified as measured at amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

— contingent events that would change the amount or timing of cash flows;

— terms that may adjust the contractual coupon rate, including variable-rate features;

— prepayment and extension features; and

— terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Group does not hold debt or equity investments measured at FVOCI or FVTPL. All Group's financial assets are classified as financial assets at amortized costs, these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.

*Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Any gain or loss on derecognition is recognised in profit or loss.

i. Financial liabilities

All Group's and Company's financial liabilities are classified as measured at amortised cost, except for derivative financial instruments which are measured at FVTPL.

*Other financial liabilities at amortized cost*

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

*Financial liabilities at FVTPL*

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

*Derecognition*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

ii. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

***Impairment of non-derivative financial assets***

The Group and the Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- contract assets.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group and the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs, simplified method.

The Group and the Company measures loss allowances at an amount equal to 12-month ECLs, unless there has been a significant increase in credit risk since initial recognition; then lifetime ECLs is used instead.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group and the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group and the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Company's historical experience and informed credit assessment and including forward-looking information. The Group and the Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group and the Company considers a financial asset to be in default when:

— the borrower is unlikely to pay its credit obligations to the Group and the Company in full, without recourse by the Group and the Company to actions such as realising security (if any is held); or

— the financial asset is more than 90 days past due.

Credit-impaired financial assets

At each reporting date, the Group and the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

— significant financial difficulty of the borrower or issuer;

— a breach of contract such as a default or being more than 90 days past due;

— the restructuring of a loan or advance by the Group and the Company on terms that the Group and the Company would not consider otherwise;

— it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

— the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group and the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group and the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group and the Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Company's procedures for recovery of amounts due.

***Deferred and current tax***

Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to tax authorities. Deferred taxes refer to tax on differences between the carrying amount and the tax base, which in the future serves as the basis for current tax. Deferred tax liabilities are the tax attributable to taxable temporary differences and are expected to be paid in the future. Deferred tax liabilities are recognised on all taxable temporary differences, Deferred tax assets represent a reduction in the future tax attributable to deductible temporary differences, tax loss carry-forwards or other future taxable deductions. Deferred tax assets are tested on each closing period and recognised to the extent it is likely on each closing day that they can be utilised. As a result, a previously unrecognised deferred tax asset is recognised when it is considered likely that a sufficient surplus will be available in the future. Tax rates which have been enacted or substantively enacted as of the reporting date are used in the calculations. The Group's deferred tax assets and tax liabilities are estimated at nominal value using country's tax rate in effect in subsequent years. Deferred tax assets are netted against deferred tax liabilities for Group entities that have offsetting rights. All current and deferred taxes are recognised in profit or loss as Tax, with the exception of tax attributable to items that are recognised directly in other comprehensive income or equity.

Based on the new Corporate Income tax law of the Republic of Latvia starting from 1 January 2018 corporate income tax is applicable to distributed profits and several expenses that would be treated as profit distribution. In case of reinvestment of profit corporate income tax shall not be applied. The applicable corporate income tax rate has increased from the 15% to 20%.

In accordance with International Accounting Standard No 12 "Income Taxes" in cases where income tax is payable at a higher or lower rate, depending on whether the profit is distributed, the current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. In Latvia the applicable rate for undistributed profits is 0%. Therefore, in the deferred tax assets and liabilities related to operations in Latvia were released to profit or loss for 2017.

***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases.

If the Group is a lessee in a finance lease arrangement, it recognises in the statement of financial position the assets as an item of property, plant and equipment and a lease liability measured as the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charge so as to achieve a constant interest rate on the balance of liability outstanding. The interest element of the lease payment is charged to the profit or loss over the lease period. The item of property, plant and equipment acquired under a finance lease is depreciated over the shorter of the useful life of the asset and the lease term, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Total payments made under operating leases are charged to the profit and loss statement on a straight–line basis over the period of the lease.

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

***Cash and cash equivalents***

Cash and cash equivalents include cash in bank and demand deposits with credit institutions with initial term which does not exceed 90 days.

***Government grants***

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions related to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

***Use of estimates and critical accounting judgments***

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities and off statements of financial position items, as well as reported revenues and expenses. Actual results could differ from those estimates.

The following are the critical judgments and key estimates concerning the future, and other key sources of estimation uncertainty which exist at the reporting date of the financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next reporting period:

*Recoverable amount of goodwill*
Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Determining whether goodwill is impaired requires the management to estimate the future cash flows expected to arise from the cash-generating unit. Where the actual future cash flows are less than expected, a material impairment loss may arise. The key assumptions used to determine the recoverable amount of goodwill are disclosed in Note 5.

*Useful lives of property, plant and equipment*
Useful lives of property, plant and equipment are assessed at each balance sheet date and changed, if necessary, to reflect the Group's management current view on their remaining useful lives in the light of changes in technology, the remaining prospective economic use of the assets and their physical condition.

*The carrying amounts of property, plant and equipment*
The Group's management reviews the carrying amounts of property, plant and equipment and assesses whenever indications exist that the assets' recoverable amounts might be lower than their carrying amounts. In case such indication of impairment is established, the Group measures the amount of impairment based on the estimates related to the expected future use, planned liquidation or sale of the assets.

*Recoverability of deferred tax assets on tax loss carried forward*
The Group assesses the availability of taxable profits during the period when tax losses and tax discounts carried forward can be used. The Group reviews the deferred tax asset at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available during the period when tax loss and discounts can be carried forward to use the deferred tax asset.

*Net realisable value of inventories*
The Group's management evaluates the net realisable value of inventories based upon the expected sales prices and selling costs and assesses the physical condition of inventories during the annual stock count. If the net realisable value of inventories is lower than the cost of inventories, allowance is recorded.

*Allowance for expected credit losses on doubtful receivables*
Refer to above section Impairment of non-derivative financial assets.

*Defined benefit pension plans*
The Group's management determines net deficit in defined benefit pension plan based on an assessment carried out by independent actuary. The most significant assumptions used in this assessment are the expected return on pension plan assets, pension growth rate, discount rate and availability of refund of potential future surplus of the plan. Please see Note 20 for more detailed information.

*Judgement regarding the Company's and Group's ability to continue as a going concern* – please refer to Note 38

*Judgement whether particular subsequent event is adjusting or not* – please refer to Note 5, 6, 33 and 35.

*Judgement regarding entitlement to government grants received* – please refer to Note 21.

*Judgement regarding the long-term classification of borrowings from credit institutions* – please refer to Note 14.

**4. INTANGIBLE ASSETS**

**Group**

| | **Software licenses, patents, trademarks and other rights EUR** | **Software in acquisition process EUR** | **TOTAL EUR** |
|---|---|---|---|
| COST | | | |
| **31.12.16.** | **1 213 357** | **-** | **1 213 357** |
| Additions | 87 567 | 147 489 | 235 056 |
| Disposed | (18 356) | - | (18 356) |
| Transfers | 132 789 | (132 789) | - |
| **31.12.17.** | **1 415 357** | **14 700** | **1 430 057** |
| Exchange differences | 4 481 | - | 4 481 |
| Additions | 129 162 | 79 352 | 208 514 |
| **31.12.18.** | **1 549 000** | **94 052** | **1 643 052** |
| | | | |
| ACCUMULATED AMORTISATION | | | |
| **31.12.16.** | **343 752** | **-** | **343 752** |
| Charged | 116 643 | - | 116 643 |
| Disposed | (18 356) | - | (18 356) |
| **31.12.17.** | **442 039** | **-** | **442 039** |
| Exchange differences | 3 205 | - | 3 205 |
| Charged | 158 281 | - | 158 281 |
| Increase in impairment allowances | 74 355 | - | 74 355 |
| **31.12.18.** | **677 880** | **-** | **677 880** |
| | | | |
| **Carrying value** | | | |
| **31.12.17.** | **973 318** | **14 700** | **988 018** |
| **31.12.18.** | **871 120** | **94 052** | **965 172** |

**Company**

| | **Software licenses, patents, trademarks and other rights EUR** | **Software in acquisition process EUR** | **TOTAL EUR** |
|---|---|---|---|
| COST | | | |
| **31.12.16.** | **1 213 357** | **-** | **1 213 357** |
| Additions | - | 147 489 | 147 489 |
| Disposed | (18 356) | - | (18 356) |
| Transfers | 132 789 | (132 789) | - |
| **31.12.17.** | **1 327 790** | **14 700** | **1 342 490** |
| Additions | 118 713 | 79 352 | 198 065 |
| **31.12.18.** | **1 446 503** | **94 052** | **1 540 555** |
| | | | |
| ACCUMULATED DEPRECIATION | | | |
| **31.12.16.** | **343 752** | **-** | **343 752** |
| Charged | 111 206 | - | 111 206 |
| Disposed | (18 356) | - | (18 356) |
| **31.12.17.** | **436 602** | **-** | **436 602** |
| Charged | 138 782 | - | 138 782 |
| **31.12.18.** | **575 384** | **-** | **575 384** |
| | | | |
| **Carrying value** | | | |
| **31.12.17.** | **891 188** | **14 700** | **905 888** |
| **31.12.18.** | **871 119** | **94 052** | **965 171** |

## 5. INVESTMENTS IN SUBSIDIARIES AND GOODWILL

| The Company is a shareholder in the following companies: | 31.12.2018 EUR | 31.12.2017 EUR |
|---|---|---|
| Valmiera Glass UK Limited (100%) | 13 000 000 | 13 000 000 |
| P-D Valmiera Glass USA Corporation (2018: 52.21%, 2017: 67%) | 14 680 994 | 16 959 079 |
| Valmiera Glass Trading USA Corporation (100%) | 15 895 | 15 895 |
| Impairment allowances | (14 696 889) | - |
| **Total** | **13 000 000** | **29 974 974** |

Core business of the subsidiary is trade and production of fiberglass products.

*Valmiera Glass UK Limited*

The Company acquired 100% of shares of subsidiary Valmiera Glass UK Limited (formerly named P-D Interglas Technologies Limited) from related party on 4 October 2013. Cost of acquisition amounted to EUR 13 000 000.

Valmiera Glass UK Ltd acquisition resulted in the recognition of goodwill of GBP 3 276 269 (2018: EUR 3 662 559; 2017: EUR 3 692 694) as acquisition costs essentially include the anticipated benefits of the business combination, revenue growth and future market growth. These and other benefits arising from the acquisition were not recognized as separate assets because they did not meet identifiable intangible assets recognition criteria.

The management has made assessment of the recoverable amount of the investment in Valmiera Glass UK Limited and goodwill based on value-in-use – discounted cash flow projections of the subsidiary. The financial model is based on discounted net expected cash flows, which are forecasted in accordance with detailed 5-year budget (the cash generating unit is on the level of Valmiera Glass UK Limited). Planned net sales compound annual growth rate (CAGR) in the period from 2019 through 2023 is 5%. Estimated annual long-term growth rate, which is applied to project future cash flows after the fifth year, is 2% p.a. 13.2% EBITDA margin in expected both in the period from 2019 through 2023, and after the fifth year through the terminal year. The estimated future cash flows are discounted to their present value using a pre-tax discount rate of 8% (2017: 8%), which reflects assessments of the time value of money of the Group's Parent Company and the risks specific to Valmiera Glass UK Limited as at the date of these financial statements. Based on the above assumptions, the present value of estimated future cash flows of Valmiera Glass UK Limited exceeds the carrying amount of the investment as at 31 December 2018, and no impairment is recognized. The calculation of value-in-use is most sensitive to the assumptions of net sales growth rates, EBITDA margins, and discount rates. No reasonably expected change in these key assumptions would result in goodwill impairment; hence, no sensitivity analysis is presented.

*Valmiera Glass Trading USA Corporation*

The Company established subsidiary Valmiera Glass Trading USA Corporation on 9 April 2014. The purpose of this US subsidiary was to act as a sales representative of Valmiera Glass and P-D Valmiera Glass USA Corporation in the US market.

As the result of the negative business development of P-D Valmiera Glass USA Corporation, as at the date of these financial statements, Valmiera Glass Trading USA Corporation is a dormant company. The management of the Company consider winding-down of the subsidiary, and have decided to recognize impairment allowances in full amount of the carrying amount of investment in the subsidiary as at 31 December 2018.

*P-D Valmiera Glass USA Corporation*

The Company established subsidiary P-D Valmiera Glass USA Corporation on 9 April 2014. Subsequently the share capital was increased several times and non-controlling share of 33% was sold to P-D Management Industries-Technologies GmbH in years 2015 and 2016.

On 10 February 2017 the Company invested additional USD 15 373 606 (EUR 14 472 000) in the share capital of the subsidiary P-D Valmiera Glass USA Corporation EUR 7 128 000 was contributed by the non-controlling investor in proportion with the shares held by them.

In January 2018, the Company sold 9% of shares to P-D management Industries-Technologies GmbH for EUR 2 400 000.

On 28 September 2018 an agreement on sale of P-D Valmiera Glass USA Corporation shares was signed with Lamtec Corporation. Based on the agreement, P-D Valmiera Glass USA Corporation issued 111 new shares and the subsidiary's share capital was increased by USD 2 993 190 (EUR 2 614 140) on 30 September 2018. The 111 shares, which constitute 10% of P-D Valmiera Glass USA Corporation total share capital, were sold to Lamtec Corporation for the total amount of USD 10 000 000 (EUR 8 733 624) in order to secure additional investments for the US subsidiary. In accordance with the share purchase agreement, Lamtec Corporation became a rightful shareholder of P-D Valmiera Glass USA Corporation on 30 September 2018.

After the share capital increase of 30 September 2018, P-D Valmiera Glass USA Corporation share capital amounts to USD 29 958 870 (EUR 26 164 952) and is divided in 1111 shares with par value of USD 26 966 (EUR 23 551). The Company remains the controlling shareholder of P-D Valmiera Glass USA Corporation, and the ownership structure of P-D Valmiera Glass USA Corporation is the following:

52% – AS Valmieras Stikla Šķiedra (Latvia)
23% – P-D Management Industries-Technologies GmbH (Germany)
15% – Mr. Heinz-Jürgen Preiss-Daimler (Germany)
10% – Lamtec Corporation (Pennsylvania, USA)

In April 2018, the P-D Valmiera Glass USA Corporation started fibreglass production in newly constructed factory (including Phase 1 (needle mat production) and Phase 2 (melting operations) plants).

While Phase 1 was fully operational during 2018, investments totalling EUR 99 million have been made into the US Phase 2 facility by the end of 2018 (with a total of USD 110m planned for the period 2014 – 2022). Unfortunately, within the process of carrying out this project a number of unforeseen obstacles have arisen leading, despite multiple innovative approaches by management, to the Phase 2 facility production line still unable to reach the required capacity utilisation and remaining operationally loss-making both in 2018 and 2019, effectively consuming operational cash from other parts of the Group, as evidenced by substantial loans issued to the P-D Valmiera Glass USA Corporation (please refer to Note 33 Transactions and balances with related parties).

In May 2019, the Company and Valmiera Glass UK Limited discontinued their financial support to P-D Valmiera Glass USA Corporation. On 9 May 2019, the Group announced the commencement of a due diligence process at P-D Valmiera Glass USA Corp. Despite subsequent discussions with various interested parties a firm proposal was not received, and performance deterioration continued.

As stated in Note 14, as at 31 December 2018, P-D Valmiera Glass USA Corporation had entered into a short-term USD 3 000 000 (EUR 2 620 087) uncommitted revolving credit line agreement with Landesbank Baden-Württemberg New York ("LBBW Bank") guaranteed by the Company (please see Note 35 Contingent liabilities).

On 10 June 2019, Company's guarantee to LBBW Bank was called, when LBBW Bank demanded repayment by the Company of the principal amount of the loan, together with accrued interest, in the total amount of USD 3 013 148. (EUR 2 693 438). This event triggered the Company to commence the Legal Protection Proceedings ("LPP) as described in Note 37 Subsequent events. Simultaneously, P-D Valmiera Glass USA Corp. was forced to stop its Phase 2 Fiberglass furnace operation effective 17 June 2019. More than 350 employees were made redundant. In addition, the US facility filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court for the Northern District of Georgia on 17 June 2019.

Chapter 11 is a procedure under the US bankruptcy code to reorganise a distressed company. In comparison to the chapter 7 process, which would be a total liquidation of all assets, the chapter 11 process permits the continued operation of parts or the whole organisation in a controlled way.

The subsidiary is currently operating as a debtor-in-possession and under a Final Cash Collateral Order entered by the Bankruptcy Court, according to which all payments from the bank accounts of the subsidiary are subject to the Court's approval in order to protect the interests of the secured creditors. In addition, the Court has appointed a Committee of Unsecured Creditors, which shall represent and protect the interests of unsecured creditors.

The subsidiary remains under control and direction of its existing Management Board and Supervisory Council elected by the company's shareholders. In accordance with IFRS 10, the Group's Parent Company remains the controlling shareholder of P-D Valmiera Glass USA Corporation.

P-D Valmiera Glass USA Corporation continues to run Phase 1 manufacturing operations. The management team of the subsidiary was replaced. Since then operating financial results of the subsidiary have significantly improved, and the subsidiary is set to reach neutral monthly operating cash flow by the end of year 2019.

The decision of the Bankruptcy Court on the approval of the plan of reorganization of P-D Valmiera Glass USA Corporation is expected in January 2020. The plan is still under development; yet, at the date of approval of these financial statements the management of P-D Valmiera Glass USA Corporation plans to continue the Phase 1 (needle mat manufacturing) operations, and sell the assets of Phase 2 operations.

Considering the uncertainty associated with the Bankruptcy Court's approval of the reorganization plan of P-D Valmiera Glass USA Corporation, as well as the general future course of the subsidiary's operations, the management of the Company believes that the Company's investment in P-D Valmiera Glass USA Corporation is not recoverable. The management has decided to recognize impairment allowance in full amount of the carrying amount of its investment in the subsidiary as at 31 December 2018 (EUR 14 680 994) in separate financial statements.

In addition, impairment allowances for the carrying amount of loans granted (EUR 79 565 549, Note (33 (a)) andtrade receivables (EUR 1 543 338Note 33(c)) were recognized as at 31 December 2018 in separate financial statements.

## 6. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Land EUR | Buildings EUR | Equipment and machinery EUR | Other fixed assets EUR | Construction in progress EUR | Advance payments for fixed assets EUR | Total EUR |
|---|---|---|---|---|---|---|---|
| HISTORICAL COST | | | | | | | |
| **31.12.16.** | **376 885** | **36 655 701** | **132 920 452** | **5 727 283** | **5 952 882** | **348 704** | **181 981 907** |
| Exchange differences | - | (593 051) | (671 053) | (127 161) | (134 936) | - | (1 526 201) |
| Additions | - | 3 311 | 63 147 | 132 056 | 71 042 912 | 12 814 999 | 84 056 425 |
| Disposals | - | (27 074) | (1 149 945) | (373 792) | - | - | (1 550 811) |
| Transfers | - | 545 574 | 4 624 661 | 289 996 | (5 460 231) | - | - |
| **31.12.17.** | **376 885** | **36 584 461** | **135 787 262** | **5 648 382** | **71 400 627** | **13 163 703** | **262 961 320** |
| Exchange differences | - | 1 591 904 | 1 464 498 | 19 326 | 1 072 983 | 199 277 | 4 347 988 |
| Additions | - | 247 038 | 2 052 755 | 286 882 | 9 992 943 | - | 12 579 618 |
| Disposals | - | - | (1 789 870) | (90 855) | - | - | (1 880 725) |
| Transfers | - | 52 643 133 | 41 810 013 | 441 701 | (82 033 530) | (12 861 316) | - |
| **31.12.18.** | **376 885** | **91 066 536** | **179 324 657** | **6 305 436** | **433 023** | **501 664** | **278 008 201** |
| | | | | | | | |
| ACCUMULATED DEPRECIATION | | | | | | | |
| **31.12.16.** | **-** | **19 789 412** | **72 488 282** | **4 568 367** | **-** | **-** | **96 846 061** |
| Exchange differences | - | (50 934) | (85 499) | (15 672) | - | - | (152 105) |
| Charge for the year | - | 1 488 624 | 9 091 800 | 427 273 | - | - | 11 007 697 |
| Disposals | - | (27 074) | (646 413) | (366 626) | - | - | (1 040 111) |
| **31.12.17.** | **-** | **21 200 028** | **80 848 170** | **4 613 342** | **-** | **-** | **106 661 540** |
| Exchange differences | - | 1 792 958 | 1 418 041 | 17 979 | - | - | 3 228 978 |
| Charge for the year | - | 2 571 727 | 11 366 053 | 466 724 | - | - | 14 404 504 |
| Disposals | - | - | (1 761 741) | (83 225) | - | - | (1 844 966) |
| Increase in impairment allowances | - | 55 032 316 | 43 710 072 | 525 148 | - | - | 99 267 536 |
| **31.12.18.** | **-** | **80 597 029** | **135 580 595** | **5 539 968** | **-** | | **221 717 592** |
| **NET CARRYING AMOUNT** | | | | | | | |
| **31.12.17.** | **376 885** | **15 384 433** | **54 939 092** | **1 035 040** | **71 400 627** | **13 163 703** | **156 299 780** |
| **31.12.18.** | **376 885** | **10 469 507** | **43 744 062** | **765 468** | **433 023** | **501 664** | **56 290 609** |

The Group has pledged all its property as a security for borrowings, see Note 14 and 16.

A number of fixed assets that have been fully depreciated are still used in operations. The total acquisition cost of these assets as at 31 December 2018 amounted to EUR 30 514 306 (2017: EUR 27 808 222).

Equipment and machinery include precious metal plates that are used in production, with net carrying amount as of 31 December 2018 of EUR 7 875 981 (2017: EUR 7 968 466). According to the metal prices quoted in London Stock Exchange as at 31 December 2018 the market price of the precious metals was EUR 10 136 417 (2017: EUR 9 633 823). The average technical depletion of the plates in 2018 was 3.2 % (2017: 5.2 %).

The additions to property, plant and equipment include capitalised direct expenses related with development of fixed assets. The total amount of expenses capitalised to property, plant and equipment was EUR 1 524 807 during 2018 (2017: EUR 2 089 341). The additions to property include capitalized interest costs on loans received for specific asset acquisition. The total amount of expenses capitalized in 2018 was EUR 615 791 (2017: EUR 1 277 836).

As described in Note 5 Investments in subsidiaries and goodwill, in April 2018, the Company's subsidiary P-D Valmiera Glass USA Corporation completed a project to construct fibreglass factory and started production. During the production start-up phase, the subsidiary was unable to attain the planned production capacity and was operationally loss-making. As the result, the subsidiary had negative operating cash flow in 2018 and in the first half of 2019, had to stop Phase 2 Fiberglass furnace operations, and filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court for the Northern District of Georgia on 17 June 2019.

As further described in Note 5, as at the date of issuing these financial statements, the subsidiary continues to run Phase 1 manufacturing operations (while Phase 2 continues to be suspended). Operating financial results of the subsidiary have significantly improved, and the subsidiary is set to reach neutral monthly operating cash flow by the end of year 2019.

As at 31 December 2018 the cost and accumulated depreciation of property, plant and equipment attributable to Phase 1 and Phase 2 operations were as follows:

| **As at 31 December 2018, EUR** | **Phase 1** | **Phase 2** |
|---|---:|---:|
| Cost | 9 986 269 | 98 590 876 |
| Accumulated depreciation | (2 261 826) | (3 821 100) |
| **Net value** | **7 724 443** | **94 769 776** |

The subsidiary's management considers the above factors as adjusting subsequent events in accordance with IAS 10. The subsidiary's management assumes that the carrying amount of the tangible fixed assets of P-D Valmiera Glass USA Corporation is not recoverable, and impairment allowance in the amount of EUR 99 267 538 is recognized in 2018. Due to the fact that different currency translation rate was applied for Profit or Loss and statement of financial position translation to the reporting currency of the consolidated financial statement, 3 226 681 EUR exchange difference arose between net value of the assets as at 31 December 2018 as disclosed above and impairment allowance, recognized in the profit or loss statement. This difference is presented separately in property, plant and equipment movement schedule.

**Company**

| | Land EUR | Buildings EUR | Equipment and machinery EUR | Other fixed assets EUR | Construction in progress EUR | Advance payments for fixed assets EUR | TOTAL EUR |
|---|---|---|---|---|---|---|---|
| HISTORICAL COST | | | | | | | |
| **31.12.16.** | **376 885** | **28 130 855** | **115 583 922** | **4 218 095** | **4 271 168** | **290 994** | **152 871 919** |
| Additions | - | - | - | - | 1 393 861 | 158 981 | 1 552 842 |
| Disposals | - | (27 074) | (1 273 341) | (373 792) | - | - | (1 674 207) |
| Transfers | - | 545 574 | 4 624 661 | 289 996 | (5 460 231) | - | - |
| **31.12.17.** | **376 885** | **28 649 355** | **118 935 242** | **4 134 299** | **204 798** | **449 975** | **152 750 554** |
| Additions | - | 58 670 | 863 038 | 200 209 | 223 170 | - | 1 345 087 |
| Disposals | - | - | (1 789 870) | (90 855) | - | - | (1 880 725) |
| Transfers | - | - | - | - | 5 055 | (5 055) | - |
| **31.12.18.** | **376 885** | **28 708 025** | **118 008 410** | **4 243 653** | **433 023** | **444 920** | **152 214 916** |
| ACCUMULATED DEPRECIATION | | | | | | | |
| **31.12.16.** | **-** | **16 520 756** | **61 398 785** | **3 375 402** | **-** | **-** | **81 294 943** |
| Charge for the year | - | 1 250 913 | 8 460 477 | 331 285 | - | - | 10 042 675 |
| Disposals | - | (27 074) | (769 809) | (366 624) | - | - | (1 163 507) |
| **31.12.17.** | **-** | **17 744 595** | **69 089 453** | **3 340 063** | **-** | **-** | **90 174 111** |
| Charge for the year | - | 1 247 269 | 8 211 524 | 331 937 | - | - | 9 790 730 |
| Disposals | - | - | (1 761 741) | (83 225) | - | - | (1 844 966) |
| **31.12.18.** | **-** | **18 991 864** | **75 539 236** | **3 588 775** | **-** | **-** | **98 119 875** |
| NET CARRYING AMOUNT | | | | | | | |
| **31.12.17.** | **376 885** | **10 904 760** | **49 845 789** | **794 236** | **204 798** | **449 975** | **62 576 443** |
| **31.12.18.** | **376 885** | **9 716 161** | **42 469 174** | **654 878** | **433 023** | **444 920** | **54 095 041** |

The Company has pledged all its property as a security for borrowings, see Note 14.

A number of fixed assets that have been fully depreciated are still used in operations. The total acquisition cost of these assets as at 31 December 2018 amounted to EUR 17 761 282 (2017: EUR 15 304 311).

Equipment and machinery include precious metal plates that are used in production, with net carrying amount as of 31 December 2018 of EUR 7 875 981 (2017: EUR 7 968 466). According to the metal prices quoted in London Stock Exchange as at 31 December 2018 the market price of the precious metals was EUR 10 136 417 (2017: EUR 9 633 823). The average technical depletion of the plates in 2018 was 3.2 % (2017: 5.2 %).

The additions to property include capitalized interest costs on loans received for specific asset acquisition. The total amount of expenses capitalized in 2018 was EUR 300 497 (2017: EUR 770 840).

## 7. RAW MATERIALS

| | Group | | Company | |
|---|---|---|---|---|
| | **31.12.18. EUR** | **31.12.17. EUR** | **31.12.18. EUR** | **31.12.17. EUR** |
| Raw materials | 11 540 663 | 9 894 790 | 7 310 473 | 7 728 930 |
| Write downs to net realizable value | (90 918) | (780 074) | (90 918) | (246 569) |
| **Total** | **11 449 745** | **9 114 716** | **7 219 555** | **7 482 361** |

The change in the allowance is due to decreased volume of inventories measured at net realizable value and was disclosed in profit and loss statement item Raw materials and consumables (please see Note 24).

## 8. FINISHED GOODS

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 31.12.18. | 31.12.17. (restated) | 31.12.16. | 31.12.18. | 31.12.17. (restated) | 31.12.16. |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Finished goods | 12 770 177 | 12 680 982 | 17 313 657 | 6 787 362 | 5 536 107 | 9 347 078 |
| Write downs to net realizable value | (123 629) | (161 155) | (218 403) | (123 629) | (161 155) | (151 437) |
| **Total** | **12 646 548** | **12 519 827** | **17 095 254** | **6 663 733** | **5 374 952** | **9 195 641** |

The change in the write down is due to changes to market prices for which goods can be realized and was disclosed in profit and loss statement item Change in inventories.

## 9. TRADE RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. | 31.12.17. | 31.12.18. | 31.12.17. |
| | EUR | EUR | EUR | EUR |
| Trade receivables | 7 929 477 | 12 261 509 | 4 320 831 | 6 014 910 |
| Allowances for doubtful receivables | (95 803) | (312 986) | (95 803) | (6 726) |
| **Total** | **7 833 674** | **11 948 523** | **4 225 028** | **6 008 184** |

**Age of receivables that are past due but not impaired:**

| | | | | |
|---|---|---|---|---|
| Days past due | | | | |
| 61-90 days | 83 037 | 18 210 | 23 617 | - |
| Over 90 days | 230 045 | 103 227 | 137 863 | 103 227 |
| **Total** | **313 082** | **121 437** | **161 480** | **103 227** |

**Change in allowance for doubtful trade and other receivables:**

| | Group | Company |
|---|---|---|
| | EUR | EUR |
| **Allowance as of 31 December 2016** | **524 836** | **138 525** |
| Recovered bad debts | (2 230) | (2 230) |
| Bad debts write off | (209 620) | (129 569) |
| **Allowance as of 31 December 2017** | **312 986** | **6 726** |
| Bad debts write off | (282 144) | - |
| Charge for the year | 64 961 | 89 077 |
| **Allowance as of 31 December 2018** | **95 803** | **95 803** |

## 10. OTHER RECEIVABLES

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 31.12.18. | 31.12.17. | 31.12.16. | 31.12.18. | 31.12.17. | 31.12.16. |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| VAT overpayment | 350 295 | 970 895 | 420 288 | 350 295 | 970 895 | 404 516 |
| State and EU grants for implemented projects | - | 40 578 | 339 442 | - | - | 72 864 |
| Other receivables | 447 083 | 1 182 719 | 323 789 | 306 699 | 1 040 963 | 215 990 |
| Allowance for doubtful receivables | - | (24 116) | (26 346) | - | (24 116) | (26 346) |
| **Total** | **797 378** | **2 170 076** | **1 057 173** | **656 994** | **1 987 742** | **667 024** |

## 11. DEFERRED EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. | 31.12.17. | 31.12.18. | 31.12.17. |
| | EUR | EUR | EUR | EUR |
| Precious metal plates reprocessing | - | 192 226 | - | 192 226 |
| Insurance expenses | 287 434 | 297 237 | 126 570 | 131 498 |
| Raw materials return | 312 183 | 981 | 312 183 | 981 |
| Other deferred expenses | 317 079 | 287 443 | 74 846 | 66 412 |
| **Short term portion** | **916 696** | **777 887** | **513 599** | **391 117** |
| | | | | |
| Other deferred expenses | 204 119 | 206 831 | - | - |
| **Long term portion** | **204 119** | **206 831** | - | - |

## 12. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. | 31.12.17. | 31.12.18. | 31.12.17. |
| | EUR | EUR | EUR | EUR |
| Cash in bank | 349 477 | 2 633 591 | 60 455 | 304 401 |
| **Total** | **349 477** | **2 633 591** | **60 455** | **304 401** |

## 13. EQUITY

**Share Capital**

The Company's paid-up share capital on 31 December 2018 consists of 23 903 205 publicly listed bearer shares, all with equal rights. The share capital is EUR 33 464 487.

On December 4, 2017, the shareholder meeting of the Company decide to convert 12 408 955 Company's closed issued registered shares with a EUR 1.40 nominal value each into 12 408 955 bearer shares with a EUR 1.40 nominal value each which confer identical rights to receive dividends and liquidation quotas, and voting rights at the general shareholder meeting. On July 18, 2018 Nasdaq Riga decided to admit for trading Company's additional 12 408 955 shares on the Nasdaq Baltic Secondary List next to the already traded Company's 11 494 250 shares as of July 23, 2018.In 2014 the share capital was denominated from Latvian lats to euro. Nominal value per share was determined EUR 1.40 and total value of share capital was determined EUR 3 3 464 487. Positive difference arising from the denomination in amount of EUR 546 709 was transferred to Other reserves of the Company.

As of 31 December 2018, and 2017 the shareholders of the Parent company, in accordance with the records maintained by the Latvian Central Depository, are as follows:

| | 31.12.18. | 31.12.17. |
|---|---|---|
| Corvalis GmbH (previously Vitrulan International GmbH) | 11.97% | 24.52% |
| P-D Glaseeiden GmbH Oschatz | 26.07% | 26.07% |
| Preiss – Daimler Beatrix | 9.42% | 7.40% |
| P-D Composites Handels-und Service GmbH | 18.83% | 6.28% |
| P-D Management-Industries-Technologies GmbH | 23.93% | 23.93% |
| Other | 9.78% | 11.80% |
| | **100.00%** | **100.00%** |

The Group is ultimately controlled by Heinz-Jürgen Preiss-Daimler and Beatrix Preiss-Daimler.

**Other reserves**

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. | 31.12.17. | 31.12.18. | 31.12.17. |
| | EUR | EUR | EUR | EUR |
| Accumulated actuarial differences (Note 20) | (3 546 850) | (3 692 554) | - | - |
| Other reserves | 546 709 | 546 709 | 546 709 | 546 709 |
| **Total** | **(3 000 141)** | **(3 145 849)** | **546 709** | **546 709** |

## 14. BORROWINGS FROM CREDIT INSTITUTIONS

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. | 31.12.17. | 31.12.18. | 31.12.17. |
| | EUR | EUR | EUR | EUR |
| Non-current part: | | | | |
| Loan due within 2 to 5 years | 41 470 883 | - | 41 470 883 | - |
| Loan due after more than 5 years | 13 955 675 | - | 13 955 675 | - |
| **Total non-current part** | **55 426 558** | **-** | **55 426 558** | **-** |
| Current part: | | | | |
| Credit line | 20 633 347 | 17 836 748 | 17 347 809 | 16 949 019 |
| Loan | 9 811 918 | 65 870 950 | 9 811 918 | 65 870 950 |
| **Total current part** | **30 445 265** | **83 707 698** | **27 159 727** | **82 819 969** |
| **Total** | **85 871 823** | **83 707 698** | **82 586 285** | **82 819 969** |

Based on an agreement between the Parent Company of the Group and its financing banks Danske Bank AS and AS SEB Banka, the Group shall observe certain financial covenants.

As at 31 December 2017, the Group did not comply with the Adjusted Equity Ratio financial covenant (required result - above 35%). Due to the technical breach, the long-term portion of the loan in the amount of EUR 55 672 808 was classified as short-term liabilities based on IFRS guidance.

As at 30 September 2018 and in the 9 months of 2018, the Group did not comply with EBTIDA (required result – above EUR 23 000 000), Adjusted Equity (required result – above 40%), DSCR (required result – not less than 1.5), Net debt/ EBITDA (required result – not more than 4.0), Outstanding credit line/ overdraft facility against Net Working Capital – not more than 50%) financial covenants.

As at 31 December 2018, the Group did not comply with the EBITDA (required result – above EUR 23 000 000) and Adjusted Equity (required result – above 40%) financial covenants.

On 28 December 2018, Danske Bank AS and AS SEB Banka confirmed that they would not exercise their rights to terminate the loan agreements concluded with the Parent Company of the Group in respect to the financial covenant breaches during calendar year 2018, if during January and February 2019 the Group companies received loan facilities from Mr. John Post (Lamtec Corporation) (EUR 6 000 000), P-D Management Industries Technologies GmbH (EUR 5 000 000), and Mr. Heinz-Jürgen Preiss-Daimler (EUR 1 500 000). As disclosed in Note 35, the loan facilities were granted in accordance with the agreement. As at 31 December 2018 the Parent Company and the Group were in advanced stages of negotiations with the lenders on raising the above loans and the shareholders have committed to provide financing needed; therefore, the management judged that the Parent Company and the Group had both ability and intent to comply with additional condition set by Danske Bank AS and AS SEB Banka. Therefore, the loans are classified long-term as at 31 December 2018.

In year 2017 and 2018, the annual interest rate for EUR denominated loans and credit line ranged from 1.30% to 3.45 %+ 3M EURIBOR, and the annual interest rate for USD denominated loans ranged from 2.20% to 3.45% + 3M LIBOR.

The Group has concluded interest rate swap contracts for certain loans. As at 31 December 2018, the fair value of interest swap agreement amounted to liabilities of EUR 616 514 (2017: liabilities of EUR 137 543), which is presented in line item *Derivative financial instruments* in these financial statements.

The loan facilities of the Company are secured by mortgage of the Company's real estate located on Cempu iela 13, Cempu iela 13A, Cempu iela 13B, Cempu iela 11A , Cempu iela 11B, as well as land plots "Pie Gaujas" and "Piebraucamais dzelzceļš". All properties are located in Valmiera, Latvia. The carrying amount of the above properties amounts to EUR 9 065 290 (2017: EUR 10 215 128).

As of 31 December 2018, the amount of available and not yet withdrawn credit lines was EUR 652 191 (2017: EUR 680 233) and EUR 454 454 (GBP 404 734) (2017: EUR 610 121 (GBP 541 318)).

As at 31 December 2018, P-D Valmiera Glass USA Corporation had entered into a short-term USD 3 000 000 uncommitted revolving credit line agreement with Landesbank Baden – Wurttemberg. The annual loan interest is 4.00% p.a. The loan is secured with a guarantee of the Company. As at 31 December 2018, P-D Valmiera Glass USA Corporation had used the loan facility in full amount (EUR 2 620 087).

Valmiera Glass UK Ltd has concluded a short-term GBP 1 000 000 overdraft facility agreement with SEB Bank. The annual loan interest rate ranges from 0.30 to 0.40% p.a. As at 31 December 2018, Valmiera Glass UK Ltd had used the loan facility in the amount of GBP 595 366 (EUR 665 526) (2017: GBP 458 682 (EUR 516 982).

### 15. FINANCE LEASE

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. EUR | 31.12.17. EUR | 31.12.18. EUR | 31.12.17. EUR |
| Non-current | 329 282 | 9 817 | - | 9 817 |
| Current | 169 056 | 56 453 | 9 817 | 56 453 |
| **Total** | **498 338** | **66 270** | **9 817** | **66 270** |

The interest rate for the lease is variable 3 month EURIBOR and fixed rate 1.894%-2.65%.

Net carrying amount of fixed assets purchased by Group based on finance lease agreements as of 31 December 2018 amounted to EUR 547 559 (2017: EUR 115 348).

### 16. OTHER BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. EUR | 31.12.17. EUR | 31.12.18. EUR | 31.12.17. EUR |
| Non-current | 1 118 528 | 1 245 964 | - | - |
| Current | 186 525 | 178 080 | - | - |
| **Total** | **1 305 053** | **1 424 044** | - | - |

In July, 2014 the Group signed a memorandum of cooperation with the United States Dublin City and Lawrence County Development Agency ("the Agency"), with which the Agency undertook to provide certain support, if Group located its manufacturing facility in Lawrence area. According to the memorandum, the Agency has issued to P-D Valmiera Glass USA Corporation a loan with 1% annual interest rate and 7-year repayment term.

In January, 2016 the Group signed new memorandum of cooperation with the Agency, according to which the Agency undertook to provide further financial support, if the Group made additional investment in its manufacturing facility in Lawrence area. According to the memorandum, the Agency has issued to P-D Valmiera Glass USA Corporation loan with 1% annual interest rate and 10-year repayment term.

The above loans are secured with the tangible fixed assets of P-D Valmiera Glass USA Corporation (please see Note 6).

## 17. TAXES AND SOCIAL CONTRIBUTIONS

| | Group | | Company | |
|---|---|---|---|---|
| | **31.12.18. EUR** | **31.12.17. EUR** | **31.12.18. EUR** | **31.12.17. EUR** |
| Republic of Latvia (Company) | | | | |
| Natural resource tax | 8 034 | 8 190 | 8 034 | 8 190 |
| Social security contributions | 652 087 | 1 240 808 | 652 087 | 1 240 808 |
| Personal income tax | 506 421 | 673 859 | 506 421 | 673 859 |
| Enterprise risk duty | 415 | 392 | 415 | 392 |
| Corporate income tax | 155 710 | - | 155 710 | - |
| United Kingdom: | | | | |
| Corporate income tax | 289 970 | 190 818 | - | - |
| United States of America | | | | |
| Corporate income tax | - | 70 866 | - | - |
| Personal income tax and Social security contributions | 646 179 | 66 318 | - | - |
| **Total** | **2 258 816** | **2 251 251** | **1 322 667** | **1 923 249** |

## 18. OTHER ACCOUNTS PAYABLE

| | Group | | Company | |
|---|---|---|---|---|
| | **31.12.18. EUR** | **31.12.17. EUR** | **31.12.18. EUR** | **31.12.17. EUR** |
| Salary | 1 522 875 | 939 423 | 875 930 | 794 736 |
| Other | 47 073 | 7 428 | 10 538 | 4 352 |
| **Total** | **1 569 948** | **946 851** | **886 468** | **799 088** |

## 19. ACCRUED LIABILITIES

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 31.12.18. | 31.12.17. (restated) | 31.12.16. (restated) | 31.12.18. | 31.12.17. (restated) | 31.12.16. (restated) |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Accrual for vacations | 1 042 615 | 1 196 500 | 1 144 094 | 1 042 615 | 960 121 | 979 557 |
| Accruals for remuneration of management | 569 586 | 412 242 | 411 881 | 569 586 | 412 242 | 411 881 |
| Accruals for employee bonuses | 741 091 | 222 427 | - | 741 091 | 222 427 | - |
| Accruals for client bonuses | 589 511 | 758 111 | 712 794 | 715 807 | 758 111 | 712 794 |
| Accruals for guarantee obligations (Note 35) | - | - | - | 2 620 087 | - | - |
| Other | 804 107 | 480 172 | 586 414 | 116 152 | 65 824 | 65 823 |
| **Total** | **3 746 910** | **3 069 452** | **2 855 183** | **5 805 338** | **2 418 725** | **2 170 055** |

## 20. DEFINED BENEFIT OBLIGATION

Subsidiary of the Group Valmiera Glass UK Ltd (Employer) operates a defined benefit pension scheme for certain employees and for eligible employees, a scheme providing benefits based on final pensionable pay.

The fair value of the scheme assets and the present value of liabilities are as follows:

| | 31.12.18. | 31.12.17. |
|---|---|---|
| | EUR | EUR |
| Shares/equity | 5 012 688 | 5 827 125 |
| Corporate bonds | 8 045 566 | 8 219 966 |
| Index-linked assets | 2 168 737 | 2 210 250 |
| Cash and cash equivalents | 486 289 | 91 295 |
| **Total pension plan assets** | **15 713 280** | **16 348 636** |
| Present value of pension plan liabilities | (18 253 161) | (19 070 590) |
| Subsequent liabilities recognition | (2 782 467) | (3 518 818) |
| **Total pension plan liabilities** | **(21 035 628)** | **(22 589 408)** |
| **Net pension plan liabilities** | **(5 322 348)** | **(6 240 772)** |
| Current portion | 950 220 | 958 038 |
| Non-current portion | 4 372 128 | 5 282 734 |

On 27 May 2003, normal contributions to the defined benefit pension scheme were discontinued and members' benefits ceased to accrue for additional periods of service after 27 May 2003. The scheme will continue to fund benefits accrued up to 27 May 2003.

The assets of the pension schemes are held separately from those of Valmiera Glass UK Ltd being invested by independent investment managers.

A landmark judgement on a case concerning Lloyds Bank was released on 26 October 2018. Whilst this could be appealed, it confirmed that the Lloyds Bank schemes are require to equalise Guaranteed Minimum Pension (GMP) between men and women. In previous year no allowance has been include for any potential equalisation. In terms of the accounting treatment at the current year end, the effect of allowing for GMP equalisation constitutes a benefit change and therefore needs to be accounted for as a Past Service Cost and has therefore been recognised in Profit and Loss.

The appointment of Trustees is determined by the trust documentation.

The Trustees of the Scheme invest the assets in line with the Statement of Investment Principles. The Statement of Investment Principles has been established taking into consideration the liabilities of the Scheme and the investment risk that the Trustees are willing to accept.

Under the Scheme Funding regime introduced by the Pensions Act 2004, the Trustees are required to carry out regular scheme funding assessments and establish a schedule of contributions and a recovery plan when there is a shortfall in the scheme. The recovery plan details the amount and timing of the contributions required to eliminate the shortfall in the scheme. Scheme funding assessments are carried out at least every three years. Approximate funding updates are produced annually in years where a full scheme funding valuation is not being completed.

In accordance with IFRIC 14, at each scheme funding assessment the present value of the contributions detailed in the current recovery plan is compared with any deficit measured. Where the contributions under the current recovery plan are no longer sufficient to remove the shortfall by the end of period specified in the recovery plan a new recovery plan will need to be agreed between the Trustees and the Employer. Options include increasing contributions due from the Employer, extending the recovery period with additional contributions paid after the expiry of the current recovery period or some combination of the two. The affordability to the Employer of any increase in contributions is a primary factor in the agreement of any new recovery plan.

Where the contributions are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

As part of the Scheme Funding Assessment as at 31 March 2013, a recovery plan was agreed between the Trustees and the Employer to meet the shortfall over the period ending 31 August 2025. The contributions payable under this recovery plan are EUR 950 220 per annum payable monthly.

The defined benefit pension scheme exposes the Employer to actuarial risks, such as longevity risk, interest rate risk, salary risk, market (investment) risk and currency risk.

The plan valuation is based on qualified actuarial valuation as of 31 December 2018. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The principal assumptions at 31 December 2018 and 2017 were:

| **% p.a.** | **2018** | **2017** |
|---|---|---|
| | **%** | **%** |
| Discount rate | 2.75 | 2.40 |
| Future increases in deferred pensions | 2.35 | 2.30 |
| Rate of increase in pension payments – RPI (max 5%) | 3.25 | 3.25 |
| Rate of increase in pension payments – CPI (max 3%) | 2.05 | 2.05 |

Mortality assumptions

The assumed life expectations on retirement at age 65 are:

| | **2018** | **2017** |
|---|---|---|
| | **Years** | **Years** |
| Retiring today | | |
| - Males | 22.1 | 22.3 |
| - Females | 24.2 | 24.2 |

*Sensitivity of the net obligation to changes in assumptions*

The sensitivity analysis shows what the present value of pension plan liabilities would be with the stated changes in the assumptions (assuming all other assumptions remain constant).

The total employer contributions to the scheme in 2019 is estimated to be EUR 950 220. The duration of the defined benefit obligation is 16 years.

| | **2018** | **2017** |
|---|---|---|
| | **EUR** | **EUR** |
| 0.5% decrease in discount rate | 19 559 992 | 20 542 588 |
| 0.25% increase in inflation and related assumptions | 18 343 711 | 19 177 665 |

*Movements in the fair value of plan assets:*

| | **2018** | **2017** |
|---|---|---|
| | **EUR** | **EUR** |
| At 1 January | 16 348 636 | 15 417 318 |
| Currency translation difference | (127 929) | (539 552) |
| Interest income | 396 735 | 388 851 |
| Return on plan assets (excl. interest) | (1 160 818) | 881 395 |
| Benefits paid | (704 177) | (757 414) |
| Contributions by the employer | 960 755 | 958 038 |
| At 31 December | **15 713 202** | **16 348 636** |

*Movements in the present value of defined benefit obligation:*

| | **2018** | **2017** |
|---|---|---|
| | **EUR** | **EUR** |
| At 1 January | (19 070 590) | (19 969 296) |
| Currency translation difference | 148 291 | 696 802 |
| Past service cost | (449 859) | - |
| Benefits paid | 704 177 | 766 550 |
| Actuarial gains and losses | 866 940 | (67 301) |
| Interest cost | (452 120) | (497 345) |
| At 31 December | **(18 253 161)** | **(19 070 590)** |

*Amounts recognized in other comprehensive income:*

| | **2018** | **2017** |
|---|---|---|
| | **EUR** | **EUR** |
| Actuarial gains and losses | (866 940) | 67 301 |
| Return on plan assets (excl. interest) | 1 160 818 | (881 395) |
| Change in the effect of the asset ceiling | (710 857) | 473 709 |
| **Remeasurement of defined benefit obligation** | **(416 979)** | **(340 385)** |

## 21. DEFERRED INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 31.12.18. EUR | 31.12.17. EUR | 31.12.18. EUR | 31.12.17. EUR |
| EU and other grants | 2 318 364 | 2 699 149 | 2 318 364 | 2 699 149 |
| USA grants | 1 383 305 | 1 518 938 | - | - |
| **Total non-current** | **3 701 669** | **4 218 087** | **2 318 364** | **2 699 149** |
| EU and other grants | 380 784 | 380 784 | 380 784 | 380 784 |
| USA grant | 110 631 | 105 621 | - | - |
| **Total current** | **491 415** | **486 405** | **380 784** | **380 784** |
| **Total** | **4 193 084** | **4 704 492** | **2 699 148** | **3 079 933** |

In the period from 2012 through 2016, the Company accomplished a number of investment projects co-financed by the funds of European Union, Norwegian financial instrument and the Republic of Latvia to develop the Company's manufacturing processes, facilitate new product development, reduce greenhouse gas emissions and improve wastewater treatment. Total amount of co-financing received amounted to EUR 3 956 672. As at 31 December 2018 and 2017, the Company has complied with covenants of the agreements concluded between the Company and providers of financing.

In July 2014 the Group entered into a Memorandum of Understanding („MOU") with the City of Dublin and County of Laurens Development Authority (USA), whereby the Authority agreed to provide certain inducements if the Group locates its manufacturing facility in Laurens County. As of 31 December 2015, the Group had received grant in amount of USD 900 000 (EUR 786 026) for the financing of the facility. Based on grant terms, the Group shall ensure creation of 150 jobs in USA facility and investment of USD 20 000 000 until 31 December 2019.

In January 2016, the Group signed additional agreement, whereby the Authority undertook to ensure support, if the Group will make additional investment in the amount of USD 90 000 000 in the established manufacturing facility within Phase 1 until 31 December 2022, and will create 425 new full time work places (Phase 2).

Until 31 December 2017, the Group had received support payment in the amount of USD 1 900 000 (EUR 1 659 389) within Phase 1, and USD 1 000 000 (EUR 873 362) for factory construction and expanding financing within Phase 2.

Until 31 December 2018, the Group has invested in the Dublin plant around 116 300 000 USD (EUR 101 572 052) and created 463 jobs.

As disclosed in Note 37, in June 2019, P-D Valmiera Glass USA Corporation stopped Phase 2 fiberglass furnace operations. On 29 July 2019, The Authority claimed repayment of the grant provided for financing of manufacturing facility Phase 2 construction in the amount of USD 1 000 000 (EUR 873 362). The Group considers this event as non-adjusting as at 31 December 2018.

Fulfilment of the obligations of P-D Valmiera Glass USA Corporation under the MOU with the Authority is secured with the tangible fixed assets of P-D Valmiera Glass USA Corporation (please see Note 6).

No further claims from grant providers were received or anticipated as at the date of approving these financial statements.

## 22. SALES AND OPERATING SEGMENTS

In accordance with IFRS 8, segment information shall reflect the Group's internal organization.

Until 2017, the Group's segment information did not reflect the Group's internal organization, and were identified based on the Group's two main product categories – glass fibre fabrics and non-woven products.

In 2018, the management of the Group changed the segment presentation in compliance with IFRS 8 requirements. The Group's core business is manufacturing of glass fibre products, including both non-woven products and glass fibre fabrics. The Group is organized into business units based on its geographical and legal organisation and has three reportable segments:

- Latvia (AS Valmieras stikla šķiedra)
- United Kingdom (Valmiera Glass UK Limited)
- USA (P-D Valmiera Glass USA Corporation)

Each of the reportable business units (operating segments) operate as independent businesses.

Transfer prices between these operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Management Board of each company of the Group is the Chief Operating Decision Maker and monitors the operating results of its business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit and loss in the consolidated financial statements.

**22(a) Net sales**

**Statement of financial position**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | 2016 | 2016 | 2016 | 2016 | 2016 |
| | EUR | EUR | EUR | EUR | EUR |
| **ASSETS** | | | | | |
| Segment Assets | 19 757 153 | 18 792 823 | 130 424 033 | (28 111 209) | 140 862 800 |
| **TOTAL ASSETS** | **19 757 153** | **18 792 823** | **130 424 033** | **(28 111 209)** | **140 862 800** |
| **LIABILITIES AND EQUITY** | | | | | |
| Segment liabilities and equity | 19 757 153 | 18 792 823 | 130 424 033 | (28 111 209) | 140 862 800 |
| **TOTAL EQUITY AND LIABILITIES** | **19 757 153** | **18 792 823** | **130 424 033** | **(28 111 209)** | **140 862 800** |

**Statement of comprehensive income**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 | 2017 |
| | EUR | EUR | EUR | EUR | EUR |
| **Sales** | **24 635 460** | **16 766 852** | **104 038 817** | **(19 577 417)** | **125 863 712** |
| Other operating income | 195 582 | 1 200 609 | 1 741 537 | (1 249 238) | 1 888 490 |
| Segment operating expenses | (22 060 852) | (17 057 549) | (101 914 597) | 20 597 460 | (120 435 536) |
| **Operating profit** | **2 770 190** | **909 912** | **3 865 757** | **(229 195)** | **7 316 666** |
| Interest income | 118 727 | 1 193 520 | 629 594 | (1 621 300) | 320 541 |
| Interest expenses | (143 513) | (147 314) | (2 864 113) | 1 621 299 | (1 533 641) |
| **Profit before taxation** | **2 745 404** | **1 956 118** | **1 631 238** | **(229 196)** | **6 103 566** |
| Income tax expense | (578 123) | (668 330) | 2 620 915 | - | 1 374 462 |
| **Profit for the year** | **2 167 281** | **1 287 788** | **4 252 153** | **(229 196)** | **7 478 028** |

**Statement of financial position**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 | 2017 |
| | EUR | EUR | EUR | EUR | EUR |
| **ASSETS** | | | | | |
| Segment Assets | 19 655 508 | 96 553 004 | 176 452 173 | (86 231 695) | 206 428 990 |
| **TOTAL ASSETS** | **19 655 508** | **96 553 004** | **176 452 173** | **(86 231 695)** | **206 428 990** |
| **LIABILITIES AND EQUITY** | | | | | |
| Segment liabilities and equity | 19 655 508 | 96 553 004 | 176 452 173 | (86 231 695) | 206 428 990 |
| **TOTAL EQUITY AND LIABILITIES** | **19 655 508** | **96 553 004** | **176 452 173** | **(86 231 695)** | **206 428 990** |

**Other information**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 | 2017 |
| | EUR | EUR | EUR | EUR | EUR |
| Acquisition of tangible and intangible fixed assets | 74 968 | 82 516 179 | 1 700 335 | - | **84 291 482** |
| Depreciation and amortization | 262 268 | 713 626 | 10 153 881 | - | **11 129 775** |

**Statement of comprehensive income**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | 2018 | 2018 | 2018 | 2018 | 2018 |
| | EUR | EUR | EUR | EUR | EUR |
| **Sales** | **23 225 987** | **23 416 221** | **90 549 430** | **(22 946 336)** | **114 245 302** |
| Other operating income | 76 062 | 1 692 148 | 2 181 097 | (1 200 000) | 2 749 307 |
| Segment operating expenses | (21 330 546) | (144 886 828) * | (169 300 230) ** | 105 358 119 | (230 159 485) |
| **Operating profit/(loss)** | **1 971 503** | **(119 778 459) *** | **(76 569 703) **** | **81 211 783** | **(113 164 876)** |
| Interest income | 255 845 | 2 094 302 | 3 144 418 | (2 610 157) | 2 884 408 |
| Interest expenses | (67 483) | (2 461 281) | (18 542 800) | 17 185 132 | (3 886 432) |
| **Profit/(loss) before taxation** | **2 159 865** | **(120 145 438) *** | **(91 968 085) **** | **95 786 758** | **(114 166 900)** |
| Income tax expense | (376 178) | (9 760) | (157 808) | (1) | (543 747) |
| **Profit /(loss)for the year** | **1 783 687** | **(120 155 198) *** | **(92 125 893) **** | **95 786 757** | **(114 710 647)** |

* Contain increase of impairment allowances for the carrying amount of intangible and tangible fixed assets amounting to EUR 102 460 969. Please see Notes 4 and 6.

** Contain increase of impairment allowances for the carrying amount of investments in subsidiary P-D Valmiera Glass USA Corporation, non-current loans to P-D Valmiera Glass USA Corporation and trade receivables from subsidiary P-D Valmiera Glass USA Corporation totaling EUR 102 460 969. Please see Notes 5, 33(a), and 33(c).

**Statement of financial position**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | **2018** | **2018** | **2018** | **2018** | **2018** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **ASSETS** | | | | | |
| Segment Assets | 20 890 270 | 13 693 727 | 93 045 075 | (20 392 931) | 104 831 361 |
| **TOTAL ASSETS** | **20 890 270** | **13 693 727** | **93 045 075** | **(20 392 931)** | **104 831 361** |
| **LIABILITIES AND EQUITY** | | | | | |
| Segment liabilities and equity | 20 890 270 | 13 693 727 | 93 045 075 | (20 392 931) | 104 831 361 |
| **TOTAL EQUITY AND LIABILITIES** | **20 890 270** | **13 693 727** | **93 045 075** | **(20 392 931)** | **104 831 361** |

* As at 31 December 2018, the management of the Group has recognized impairment allowances for the carrying amount of intangible and tangible fixed assets amounting to EUR 102 460 969. Please see Notes 4 and 6.
** As at 31 December 2018, the Company has recognized impairment allowances for the carrying amount of investment in subsidiary P-D Valmiera Glass USA Corporation amounting EUR 14 696 889. Please see Note 5.
*** As at 31 December 2018, the Contain increase of impairment allowances for the carrying amount of investments in subsidiary P-D Valmiera Glass USA Corporation, non-current loans to P-D Valmiera Glass USA Corporation and trade receivables from subsidiary P-D Valmiera Glass USA Corporation totaling EUR 102 460 969. Please see Notes 5, 33(a), and 33(c).

**Other information**

| | United Kingdom | United States of America | Latvia | Intra-segment eliminations | Total |
|---|---|---|---|---|---|
| | **2018** | **2018** | **2018** | **2018** | **2018** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Acquisition of tangible and intangible fixed assets | 258 446 | 10 986 534 | 1 543 152 | - | **12 788 132** |
| Depreciation and amortization | 162 127 | 4 471 144 | 9 929 512 | - | **14 562 783** |

## 22(b) Net sales by geography

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2018** | **2017** | **2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| EU | 85 901 490 | 87 807 354 | 92 235 548 | 69 574 545 | 72 581 470 | 77 690 488 |
| North America | 13 938 946 | 12 542 417 | 16 540 072 | 9 730 846 | 10 367 549 | 10 933 437 |
| CIS | 2 606 842 | 5 529 133 | 5 450 884 | 2 348 622 | 4 570 376 | 5 434 977 |
| Other | 11 798 024 | 19 984 808 | 10 587 372 | 8 895 417 | 16 519 422 | 7 354 270 |
| **Total** | **114 245 302** | **125 863 712** | **124 813 876** | **90 549 430** | **104 038 817** | **101 413 172** |

### 22(c) Net sales by product type

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2018 EUR | 2017 EUR | 2016 EUR | 2018 EUR | 2017 EUR | 2016 EUR |
| Glass fibre fabrics | 69 366 868 | 75 639 788 | 77 888 788 | 54 329 658 | 60 305 980 | 61 319 089 |
| Glass fibre non-woven products | 44 878 434 | 50 223 924 | 46 925 088 | 36 219 772 | 43 732 837 | 40 094 083 |
| **Total** | **114 245 302** | **125 863 712** | **124 813 876** | **90 549 430** | **104 038 817** | **101 413 172** |

Since the Company's core activity is mainly the production of glass fibre fabrics and non-woven products, the Company has only one operation and reportable segment.

### 22(d) Net sales – other information

The Company and the Group have not recognized any revenue in the current period that was included in the opening contract liability balance.

No revenue was recognized in the current period from performance obligations satisfied in previous periods.

No information is provided about remaining performance obligations at 31 December 2018 that have an original expected duration of one year or less, as allowed by IFRS 15 Revenue from Contracts with Customers.

The Company and the Group do not have assets recognized from the costs to obtain or fulfil contract with a customer.

## 23. OTHER OPERATING INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 EUR | 2017 EUR | 2018 EUR | 2017 EUR |
| Sale of raw materials | 226 553 | 264 933 | 177 777 | 264 933 |
| Profit from sales of fixed assets | 94 400 | - | 94 400 | 56 689 |
| Insurance indemnification | 364 326 | 32 770 | 25 615 | 32 770 |
| Income from rent of premises | 32 180 | 44 280 | 32 180 | 44 280 |
| Recovered bad debts | 1 668 | 2 230 | - | 2 230 |
| Income from EU funding | 380 785 | 396 361 | 380 785 | 396 361 |
| Income from US grants | 240 808 | 526 994 | - | - |
| Management services | - | - | 1 200 000 | 889 198 |
| Other | 1 408 587 | 620 922 | 270 340 | 55 076 |
| **Total** | **2 749 307** | **1 888 490** | **2 181 097** | **1 741 537** |

The management services are provided by the Company to its subsidiaries and include in particular securing financing and insurance protection, provision of IT services, tax and legal consultancy, controlling, etc.

## 24. RAW MATERIALS AND CONSUMABLES

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017 (restated)** | **2016** | **2018** | **2017 (restated)** | **2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Raw materials and other costs | 40 153 881 | 51 483 343 | 55 303 421 | 30 420 363 | 43 346 059 | 47 235 684 |
| Natural gas | 5 738 610 | 4 371 696 | 3 650 292 | 4 336 084 | 3 995 862 | 3 279 036 |
| Electricity | 7 692 875 | 5 790 860 | 6 894 871 | 5 826 412 | 5 143 396 | 6 175 382 |
| Oxygen | 1 368 400 | 867 161 | 776 345 | 834 064 | 867 161 | 776 345 |
| Precious metal plates processing costs | 1 389 674 | 696 611 | 684 438 | 832 956 | 696 611 | 684 438 |
| **Total** | **56 343 440** | **63 209 671** | **67 309 367** | **42 249 879** | **54 049 089** | **58 150 885** |

## 25. PERSONNEL EXPENSES

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017 (restated)** | **2016 (restated)** | **2018** | **2017 (restated)** | **2016 (restated)** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Salaries | 29 996 305 | 20 873 131 | 19 834 070 | 14 157 024 | 13 936 765 | 13 837 773 |
| State social security contributions | 5 351 442 | 4 421 267 | 4 039 308 | 3 749 751 | 3 692 871 | 3 430 551 |
| Illness and vacation expenses | 2 282 103 | 2 203 652 | 2 025 897 | 2 020 490 | 2 165 085 | 1 934 002 |
| Employee insurance | 1 203 416 | 357 921 | 340 348 | 102 230 | 98 469 | 92 116 |
| Bonuses | 741 091 | 222 427 | - | 741 091 | 222 427 | - |
| Other | 542 578 | 562 928 | 508 807 | 211 717 | 177 403 | 412 416 |
| **Total** | **40 116 935** | **28 641 326** | **26 748 430** | **20 982 303** | **20 293 020** | **19 706 858** |
| | | | | | | |
| Average number of employees | 1 702 | 1 435 | 1 268 | 1 108 | 1 063 | 1 085 |

## 26. DEPRECIATION AND AMORTIZATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Fixed asset depreciation based on straight line method | 13 946 512 | 10 566 949 | 9 332 738 | 9 602 265 |
| Depreciation of precious metal plates based on production volume | 457 994 | 440 411 | 457 992 | 440 411 |
| Intangible asset amortization | 158 281 | 116 979 | 138 782 | 111 206 |
| **Total** | **14 562 787** | **11 124 339** | **9 929 512** | **10 153 882** |

Please also see Notes 4 and 6.

## 27. OTHER OPERATING EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | EUR | EUR | EUR | EUR |
| Transportation | 8 869 760 | 8 462 177 | 5 524 108 | 6 382 541 |
| Sales commission | 1 643 066 | 1 453 362 | 1 351 045 | 1 346 408 |
| Service costs | 2 772 368 | 1 742 291 | 2 042 334 | 1 685 901 |
| Spare parts | 2 199 588 | 1 585 913 | 1 426 577 | 1 335 907 |
| Repair expenses | 658 644 | 659 991 | 436 679 | 530 922 |
| Training of employees | 188 071 | 72 318 | 172 262 | 72 318 |
| Insurance | 921 599 | 707 903 | 288 174 | 376 313 |
| Business trips | 397 143 | 687 431 | 294 933 | 353 627 |
| Labour safety | 662 104 | 361 141 | 284 700 | 280 876 |
| Research and development | 177 043 | 90 225 | 138 370 | 44 240 |
| Communication | 263 409 | 173 284 | 78 339 | 92 597 |
| Rent | 2 892 565 | 838 964 | 648 844 | 473 937 |
| Office expenses | 80 457 | 51 470 | 22 046 | 22 224 |
| Selling expenses | 511 021 | 581 880 | 438 371 | 431 125 |
| Property tax | 261 366 | 240 095 | 78 114 | 90 860 |
| Impairment allowance for intangible assets and property, plant and equipment (Note 4 and Note 6) | 99 341 893 | - | - | - |
| Audit fees | 158 195 | 73 620 | 85 484 | 53 212 |
| Other | 1 240 512 | 204 698 | 281 914 | 421 368 |
| **Total** | **123 238 804** | **17 986 763** | **13 592 294** | **13 994 376** |

Total value of other non-audit services received from the auditors of the financial statements amounted to EUR 14 000 in 2018.

## 28. FINANCE INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | EUR | EUR | EUR | EUR |
| Interest income | - | 27 078 | 2 318 772 | 336 131 |
| Foreign currency exchange gain | 2 884 408 | - | 703 731 | - |
| Gain on sale of share in Subsidiary | | | 121 915 | |
| Net gain on changes in fair value of derivative | - | 293 463 | - | 293 463 |
| **Total** | **2 884 408** | **320 541** | **3 144 418** | **629 594** |

## 29. FINANCE COST

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | EUR | EUR | EUR | EUR |
| Interest expenses | 2 959 412 | 1 359 917 | 3 170 260 | 1 630 312 |
| Increase in impairment allowances (Note 5) | - | - | 14 696 889 | - |
| Loss from foreign currency exchange rate fluctuations | - | 39 515 | - | 1 202 512 |
| Increase in allowances for accrued claims (Note 33) | - | - | 2 620 087 | - |
| Fair value change in derivatives | 551 213 | - | 551 821 | - |
| Paid fines | 320 422 | 25 715 | 123 830 | 31 289 |
| Interest expenses related to retirement benefit | 55 385 | 108 494 | - | - |
| **Total** | **3 886 432** | **1 533 641** | **21 162 887** | **2 864 113** |

## 30. CORPORATE INCOME AND DEFERRED TAX

### 30(a) Income tax charges

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | EUR | EUR | EUR | EUR |
| Corporate income tax and deferred tax recognized in profit or loss: | | | | |
| Current tax | 542 911 | 485 599 | 157 808 | - |
| Deferred tax | 836 | (1 860 061) | - | (2 620 915) |
| **Total recognized in profit/(loss) or loss** | **543 747** | **(1 374 462)** | **157 808** | **(2 620 915)** |
| Deferred tax recognized in reserves: | | | | |
| Deferred tax on retirement benefit revaluation | (271 271) | (68 077) | - | - |
| **Changes in deferred tax recognized in reserves** | **(271 271)** | **(68 077)** | **-** | **-** |
| **Total** | **272 476** | **(1 442 539)** | **157 808** | **(2 620 915)** |

**30(b) Reconciliation of accounting profit/(loss) to tax charges:**

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 (restated) | 2018 | 2017 (restated) |
| | EUR | EUR | EUR | EUR |
| Profit/(loss) before tax | (114 166 900) | 6 103 566 | (91 968 085) | 1 631 238 |
| Expected tax charge, applying parent company tax rate of 0% (2017: 15%) | - | (915 535) | - | (244 686) |
| Tax effect of tax rate in United Kingdom 19% | (410 365) | (116 680) | - | - |
| Tax effect of tax rate in United States of America 27% | 6 284 280 | (391 223) | - | - |
| Tax effect of non-deductible items | (267 006) | (178 092) | (157 808) | - |
| Non-taxable income and tax credits | - | 672 | - | - |
| Tax effect of tax rate changes | - | 3 065 659 | - | 2 865 601 |
| Effect of changes in non-recognized deferred tax assets | (6 150 656) | - | - | - |
| Other | - | (90 339) | - | - |
| **Corporate income tax and deferred tax** | **(543 747)** | **1 374 462** | **(157 808)** | **2 620 915** |
| **Effective tax rate** | **0.5%** | **-22%** | **-0.2%** | **-161%** |

* On July 28, 2017 there was a new Corporate Income Tax Law adopted in Latvia whereby from January 1, 2018 onwards profit generated after 2017 shall be taxed when being distributed. The new law no longer contains provisions that cause temporary differences between the carrying amounts of assets and liabilities in financial accounting and their tax base, therefore, in 2017 the Company eliminated previously recognized deferred tax liability arising in Latvia from the balance sheet, transferring reduction in that liability partially to the statement of profit or loss for the year 2017.

Starting from the taxation year 2018, the corporate income tax is calculated for distributed profits (20/80 from the net amount payable to shareholders). Tax rate for non-distributed profits is 0%. Corporate income tax is also paid on conditionally distributed profits (non-business related disbursements, entertainment and donation costs exceeding certain criteria and similar).

**30(c) Deferred taxes as of end of the year:**

| | Group | |
|---|---|---|
| | 31.12.18. | 31.12.17. |
| | EUR | EUR |
| Temporary difference on depreciation of fixed assets | 2 479 227 | 1 286 520 |
| **Total deferred tax liabilities** | **2 479 227** | **1 286 520** |
| | | |
| Temporary difference on accruals | - | (33 352) |
| Allowance for inventories | (680 349) | (60 034) |
| Tax loss carry forward, net | (1 120 854) | (516 303) |
| Temporary difference on retirement benefit | (1 000 621) | (1 185 747) |
| **Total deferred tax assets** | **(2 801 824)** | **(1 795 436)** |
| | | |
| **Net deferred tax (asset) / liability** | **(322 597)** | **(508 916)** |
| | | |
| Presented in statement of financial position | | |
| **Deferred tax assets** | **(904 799)** | **(1 185 747)** |
| **Deferred tax liabilities** | **582 202** | **676 831** |

**30(d) Deferred taxes movement for the year:**

**Group**

| | Temporary difference originated on: | | | | | |
|---|---|---|---|---|---|---|
| | Fixed assets | Provisions | Inventory allowance | Pension liabilities | Tax losses | TOTAL |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| **31.12.17.** | **1 286 520** | **(33 352)** | **(60 034)** | **(1 185 747)** | **(516 303)** | **(508 916)** |
| Impact of currency fluctuation | 2 088 | 324 | (940) | 658 | (1 023) | 1 107 |
| Charge to profit and loss | 1 190 619 | 33 028 | (619 375) | 95 884 | (603 558) | 96 628 |
| Charges to OCI | - | - | - | 88 584 | - | 88 584 |
| **31.12.18.** | **2 479 227** | **-** | **(680 349)** | **(1 000 621)** | **(1 120 854)** | **(322 597)** |

## 31. EARNINGS AND DIVIDEND PER SHARE

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017, (restated) | 2016 (restated) | 2018 | 2017, (restated) | 2016 (restated) |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Profit/(loss) for the year | (56 905 879) | 7 053 059 | 4 740 913 | (92 125 893) | 4 252 153 | 2 373 933 |
| Average number of shares outstanding | 23 903 205 | 23 903 205 | 23 903 205 | 23 903 205 | 23 903 205 | 23 903 205 |
| **Earnings per share** | **(2.3807)** | **0.2951** | **0. 1983** | **(3.8541)** | **0.1779** | **0.0993** |
| Dividends paid | - | - | 1 645 663 | | | 1 645 663 |
| Dividends per share | - | - | **0.0688** | | | **0.0688** |

In years 2017 and 2018 no dividends were paid to the shareholders of parent company.

In the period from 2016 through 2018, the Company has not issued dilutive securities, which would dilute the Company's earnings per share.

## 32. MANAGEMENT REMUNERATION

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Members of the Council: | | | | |
| Compensation | 226 770 | 226 770 | 263 693 | 226 770 |
| Social security payments | 14 130 | 14 130 | 15 343 | 14 130 |
| Members of the Board: | | | | |
| Compensation | 673 945 | 672 063 | 503 030 | 501 148 |
| Social security payments | 161 086 | 151 551 | 105 077 | 95 542 |
| **Total** | **1 075 931** | **1 064 514** | **887 143** | **837 590** |

In 2018 and 2017 the Group has not granted or received any loans from the members of Council, Board or other management.

## 33. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

### 33(a) Loans to related companies

| | 31.12.18. EUR | 31.12.17. EUR |
|---|---|---|
| <u>**Company**</u> | | |
| P-D Valmiera Glass USA Corporation | 76 364 225 | 30 358 012 |
| Impairment allowance | (76 364 225) | - |
| **Long term borrowings total** | **-** | **30 358 012** |
| | | |
| P-D Valmiera Glass USA Corporation | 3 201 324 | - |
| Impairment allowance | (3 201 324) | - |
| **Short term borrowings total** | **-** | **-** |

As described in Note 5, the management of the Company believes that the carrying amount of the Company's loans to P-D Valmiera Glass USA Corporation is not recoverable. Impairment allowance in full amount of its loans to the subsidiary (EUR 79 565 549) is recognized as at 31 December 2018 in separate financial statements.

### 33(b) Borrowings from related companies

| | Interest rate | 31.12.18. EUR | 31.12.17. EUR |
|---|---|---|---|
| <u>**Group**</u> | | | |
| Private persons | 4% | 2 165 630 | 1 295 000 |
| Entities controlled by the parties controlling the Group | 4% | 3 391 718 | 1 555 884 |
| **Long term borrowings total** | | **5 557 348** | **2 850 884** |
| | | | |
| Entities controlled by the parties controlling the Group | | 350 000 | - |
| **Short term borrowings total** | | **350 000** | **-** |
| | | | |
| <u>**Company**</u> | | | |
| Private persons | 4% | 1 295 000 | 1 295 000 |
| Entities controlled by the parties controlling the Group | 4% | 2 600 000 | 1 555 884 |
| Subsidiaries | 2.5%-4% | 4 372 589 | 2 316 705 |
| **Long term borrowings total** | | **8 267 589** | **5 167 589** |
| | | | |
| Entities controlled by the parties controlling the Group | | 350 000 | - |
| **Short term borrowings total** | | **350 000** | **-** |

### 33 (c) Finance lease from related companies

| | 31.12.18. EUR | 31.12.17. EUR |
|---|---|---|
| **Group** | | |
| Entities controlled by the parties controlling the Group | 86 875 | 86 875 |
| **Long term finance lease total** | **86 875** | **86 875** |
| Entities controlled by the parties controlling the Group | - | 95 460 |
| **Short term finance lease total** | **-** | **95 460** |
| **Company** | | |
| Entities controlled by the parties controlling the Group | 86 875 | 86 875 |
| **Long term finance lease total** | **86 875** | **86 875** |
| Entities controlled by the parties controlling the Group | - | 95 460 |
| **Short term finance lease total** | **-** | **95 460** |

### 33(d) Receivables from and payables to related parties

| Group | 31.12.18. Receivables EUR | 31.12.18. Payables EUR | 31.12.17. Receivables EUR | 31.12.17. Payables EUR | 31.12.16. Receivables EUR | 31.12.16. Payables EUR |
|---|---|---|---|---|---|---|
| **Controlling parties** | | | | | | |
| P-D Glasseiden Oschatz GmbH | - | 3 753 538 | - | 1 236 658 | 869 418 | 454 126 |
| P-D Management Industries – Technologies | - | 350 824 | - | 47 510 | 13 587 | 182 436 |
| J.PREISS-DAIMLER | - | 44 179 | - | - | - | - |
| **Entities controlled by the parties controlling the Group** | | | | | | |
| P-D Preiss –Daimler Consulting | - | 167 899 | - | 110 257 | - | 38 689 |
| P-D Tatneft Fiberglas Alabuga | 1 718 | - | - | - | - | - |
| P-D Industriegesellschaft GmbH Bratendorf | 72 434 | - | 241 226 | - | 563 | 104 057 |
| P-D Interglas Technologies GmbH | - | 3 307 | - | - | 5 242 | - |
| P-D Refractories GmbH | - | 311 478 | - | 14 545 | - | 14 545 |
| P-D Refractories CZ a.s | - | 219 688 | - | 90 372 | - | 18 444 |
| Preiss-Daimler FibreGlass AB | - | - | 95 865 | - | 82 321 | 2 288 |
| **Total** | **74 152** | **4 850 913** | **337 091** | **1 499 342** | **971 131** | **814 585** |

| Company | 31.12.18. Receivables EUR | 31.12.18. Payables EUR | 31.12.17. Receivables EUR | 31.12.17. Payables EUR | 31.12.16. Receivables EUR | 31.12.16. Payables EUR |
|---|---|---|---|---|---|---|
| **Controlling parties** | | | | | | |
| P-D Glasseiden Oschatz GmbH | - | 2 557 134 | - | 880 657 | 869 419 | 454 126 |
| P-D Management Industries –Technologies | - | 179 711 | - | 19 250 | 13 586 | 182 436 |
| | - | | | | | |
| **Entities controlled by the parties controlling the Company** | | | | | | |
| P-D Preiss –Daimler Consulting | - | 69 889 | - | 41 221 | - | 38 689 |
| P-D Tatneft Fiberglas Alabuga | 1 718 | - | - | - | - | - |
| P-D Industriegesellschaft GmbH Bratendorf | - | 6 716 | 223 471 | - | 563 | 104 057 |
| P-D Interglas Technologies GmbH | - | - | - | - | 5 242 | - |
| P-D Industriegesellschaft Wetro GmbH | - | 3 307 | - | - | - | - |
| P-D Refractories GmbH | - | 311 478 | - | 14 545 | - | 14 545 |
| P-D Refractories CZ a.s | - | 217 196 | - | 90 372 | - | 18 444 |
| Preiss-Daimler FibreGlass AB | - | - | 95 865 | - | 82 326 | - |
| **Total other related parties** | **1 718** | **3 345 431** | **319 336** | **1 046 045** | **971 136** | **812 297** |
| **Subsidiaries** | | | | | | |
| Valmiera Glass UK Limited | 686 771 | 310 583 | 667 968 | 310 948 | 1 226 751 | 725 452 |
| P-D Valmiera Glass USA Corporation | 1 543 338 | 3 044 543 | 22 981 624 | 862 940 | - | 72 204 |
| non-current portion | - | - | - | - | 3 123 773 | |
| current portion | - | - | - | - | 4 043 979 | |
| Valmiera Glass Trading USA Corporation | - | - | - | 15 894 | - | 18 974 |
| Impairment allowances for receivables from P-D Valmiera Glass USA Corporation (please see Note 5) | (1 543 338) | - | - | - | - | - |
| Accrued claims to P-D Valmiera Glass USA Corporation | - | - | 2 141 877 | - | - | - |
| Impairment allowances for accrued claims to P-D Valmiera Glass USA Corporation (please see Note 5) | - | - | - | - | - | - |
| **Total subsidiaries** | **686 771** | **3 355 126** | **25 791 469** | **1 189 782** | **8 394 503** | **816 630** |
| **Total** | **688 488** | **6 700 557** | **26 110 805** | **2 235 827** | **9 365 639** | **1 628 927** |

As described in Note 5, the management of the Company believes that the carrying amount of the Company's receivables and claims to P-D Valmiera Glass USA Corporation is not recoverable. Impairment allowance in full amount of its loans to the subsidiary is recognized as at 31 December 2018 in separate financial statements.

### 33(e) Transactions with related parties

| Group | 2018 EUR | 2017 EUR | 2016 EUR |
|---|---|---|---|
| Sale of goods | 4 544 317 | 7 019 288 | 7 059 210 |
| Services provided | 1 032 452 | 889 580 | 164 403 |
| Purchase of fixed and intangible assets | (12 647 151) | (484 650) | (1 948 445) |
| Purchase of goods | (29 194 401) | (756 876) | (2 609 016) |
| Sales commission | (453 455) | (1 346 408) | (1 528 571) |
| Services received | (2 877 613) | (1 528 912) | (1 300 537) |

| Company | 2018 EUR | 2017 EUR | 2016 EUR |
|---|---|---|---|
| **Subsidiaries** | | | |
| Sale of goods | 14 533 859 | 19 479 425 | 15 825 105 |
| Purchase of goods | (4 828 528) | (1 817 582) | (2 372 485) |
| Services provided | 3 419 177 | 915 945 | 1 112 951 |
| Services received | (1 019 968) | (715 379) | (600 111) |
| Purchase of fixed and intangible assets | - | (73 367) | (168 909) |
| Interest expenses | (129 579) | (117 906) | (163 016) |
| Interest income | 292 776 | 8 425 | 97 303 |
| **Other related parties** | | | |
| Sale of goods | 1 149 818 | 7 019 288 | 7 059 210 |
| Services provided | 14 490 | 721 505 | 164 403 |
| Purchase of fixed and intangible assets | - | (60 500) | (1 948 445) |
| Purchase of goods | (213 076) | (756 876) | (2 503 076) |
| Sales commission | (196 252) | (1 346 408) | (1 528 571) |
| Services received | (339 724) | (1 255 912) | (1 426 476) |

## 34. FINANCIAL RISK MANAGEMENT

Main financial instruments of the Group are trade receivables, loans granted, trade payables, loans and borrowings received, finance lease, cash and its equivalents. The primary objective of these financial instruments is to ensure the necessary financing for the Group. The Group also has other financial instruments, which arise due to its operating activities. The Group also uses derivative financial instruments to minimize interest and foreign currency rate risks.

Main financial risks which arise as a result of the use of the financial instruments are interest, currency, credit and liquidity risks.

**Market risks**

*Interest rate risk*

The Group has loans with variable EURIBOR and LIBOR interest rate from credit institutions. Therefore, it is exposed to any changes in interest rates.

| Interest rate analysis | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Currency | % rate increase | Impact on statement of profit or loss | % rate increase | Impact on statement of profit or loss |
| EUR | +1,0 | (704 585) | +1,0 | (535 348) |
| USD | +1,0 | (170 319) | +1,0 | (119 653) |

As at 31 December 2018, the Group has entered into three amortizing interest rate swap contracts to minimize the risks associated with variable loan interest rate fluctuations. Based on the contracts, the Group has agreed to exchange the floating 3-month EURIBOR interest and fixed interest ranging from -0.04% to 0.68%. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period. The fair value of financial instruments as of 31 December 2018 is liability in the amount of EUR 616 514 (2017: EUR 137 543).

*Foreign currency risk*

The Group operates internationally and performs transactions mainly in EUR, USD and GBP. Group mainly is exposed to foreign currency risk arising from USD and GBP fluctuations. Approximately 15% of total sales in 2018 resulted from contracts denominated in USD (2017: 15%).

The financial assets and liabilities of the Group, which are exposed to currency risk, are loans, cash and cash equivalents, trade receivables and payables.

The net position in USD and GBP is directly exposed to a possible fluctuation in the exchange rate thus resulting in direct effect to the Group's profit/(loss) before tax.

Analysis of financial assets and liabilities exposed to currency risk:

| **Group** | **EUR** | **USD** | **GBP** | |
|---|---|---|---|---|
| **31.12.2018** | | | | **Total** |
| Trade receivables | 3 851 846 | 3 445 822 | 610 158 | 7 907 826 |
| Cash and cash equivalents | 310 726 | 38 668 | 83 | 349 477 |
| Borrowings and finance lease obligations | (46 795 054) | (46 430 752) | (443 631) | (93 669 437) |
| Trade and other payables | (17 092 079) | (12 612 398) | (755 068) | (30 459 545) |
| **Total net financial assets** | **(61 491 683)** | **(53 791 538)** | **(588 458)** | **(115 871 679)** |
| **% from net assets** | **53%** | **46%** | **1%** | **100%** |

| | **31.12.2018** | | **31.12.2017** | |
|---|---|---|---|---|
| Currency | Exchange rate fluctuation | Impact on statement of profit or loss | Exchange rate fluctuation | Impact on statement of profit or loss |
| | **%** | **EUR** | **%** | **EUR** |
| USD | +10% | (1 509 106) | +10% | 2 061 686 |
| USD | -10% | 1 509 106 | -10% | (2 061 686) |
| GBP | +10% | 290 | +10% | (175 261) |
| GBP | -10% | (290) | -10% | 175 261 |

Analysis of financial assets and liabilities exposed to currency risk:

| **Company** | **EUR** | **USD** | **GBP** | |
|---|---|---|---|---|
| **31.12.2018** | | | | **Total** |
| Trade receivables | 1 667 600 | 3 242 097 | 3 820 | **4 913 517** |
| Cash and cash equivalents | 59 786 | 611 | 58 | **60 455** |
| Borrowings and finance lease obligations | (74 732 972) | (16 567 594) | - | **(91 300 566)** |
| Trade and other payables | (18 596 275) | (4 148 641) | (660) | **(22 745 576)** |
| **Total net financial assets** | **(91 601 861)** | **(17 473 527)** | **3 218** | **(109 072 170)** |
| **% from net assets** | **84%** | **16%** | **0%** | **100%** |

| Currency | 31.12.2018 Exchange rate fluctuation | 31.12.2018 Impact on statement of profit or loss | 31.12.2017 Exchange rate fluctuation | 31.12.2017 Impact on statement of profit or loss |
|---|---|---|---|---|
| | % | EUR | % | EUR |
| USD | +10% | 2 000 719 | +10% | 3 280 268 |
| USD | -10% | (2 000 719) | -10% | (3 280 268) |
| GBP | +10% | (288) | +10% | (6) |
| GBP | -10% | 288 | -10% | 6 |

To reduce potential adverse effects of USD currency fluctuations, the Group uses derivative financial instruments for significant transactions. In year 2018, the total value of forward currency exchange contracts concluded amounted to USD 4 000 000 (EUR 3 493 450). As of 31 December 2018, and 31 December 2017 the Group did not have open derivative contracts for foreign currency exchange.

*Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets and contract assets represent the maximum credit exposure.

Impairment loss on trade and other receivables and contract assets arising from contracts with customers recognised in profit or loss of the Group and the Company was EUR 64 961 and EUR 1 632 415, respectively.

The Group has significant exposure of credit risk with its customers. The Group's policy is to ensure that sales of products are carried out with customers having appropriate credit history. Some of the trade receivables are insured. The Group has also set credit limits for each customer. Customers from countries with increased risk and / or lack credit insurance are usually required to pay in advance.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to exposure of each customer.

At 31 December, the exposure to credit risk for trade and other receivables and contract assets by geographic regions was as follows:

**Group**

| | **31.12.2018** | **01.01.2018** |
|---|---|---|
| Europe | 6 346 702 | 10 399 042 |
| North America | 934 776 | 2 227 738 |
| CIS countries | 445 244 | 638 214 |
| Other | 978 480 | 1 190 696 |
| Total | **8 705 204** | **14 455 690** |

**Company**

| | **31.12.2018** | **01.01.2018** |
|---|---|---|
| Europe | 3 704 839 | 7 342 371 |
| North America | 613 004 | 25 136 575 |
| CIS countries | 367 099 | 638 214 |
| Other | 885 569 | 989 572 |
| Total | **5 570 511** | **34 106 731** |

***Expected credit loss assessment for all customers as at 31 December 2018***

The Group uses an allowance matrix to measure the ECLs of trade and other receivables from debtors.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures based on the common credit risk characteristics which is a geographic region.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables and contract assets from debtors assessed collectively as at 31 December 2018.

| **EUR**<br>**31 December 2018**<br>**Group** | **Loss rate** | **Gross carrying amount** | **Loss allowance** | **Credit impaired** |
|---|---|---|---|---|
| Not due - 30 days past due | 0.12 – 1.5% | 6 762 090 | 36 292 | - |
| 31 - 60 days past due | 2.5%-3.2% | 892 650 | 25 293 | - |
| 61 - 90 days past due | 3.25% - 12.34% | 84 923 | 2 231 | - |
| 91 - 180 days past due | 3.59%-16.26% | 105 501 | 681 | 681 |
| 180 - 360 days past due | 5.52% - 22.14% | 864 | 48 | 48 |
| Above 360 days past due | 6.44% - 26.89% | 83 449 | 31 258 | 31 259 |
| **Total** | | **7 929 477** | **95 803** | **31 988** |

| **EUR**<br>**31 December 2018**<br>**Company** | **Average loss rate** | **Gross carrying amount** | **Loss allowance** | **Credit impaired** |
|---|---|---|---|---|
| Not due - 30 days past due | 0.25% | 4 060 174 | 10 223 | - |
| 31 - 60 days past due | 2.50% | 135 748 | 3 394 | - |
| 61 - 90 days past due | 3.25% | 37 282 | 1 210 | - |
| 91 - 180 days past due | 3.59% | 6 051 | 217 | 217 |
| 180 - 360 days past due | 5.52% | 864 | 48 | 48 |
| Above 360 days past due | 6.44% | 80 712 | 80 711 | 80 712 |
| **Total** | | **4 320 831** | **95 803** | **80 977** |

Loss rates are based on actual credit loss experience in years 2017 and 2018. Loss rates to be applied are taken for one of the years during which economic conditions in the geographic region were most close to current economic conditions and the Group's view of economic conditions over the expected lives of the receivables. When evaluating economic conditions, the Group considers GDP growth rates in each geographic region

As at 31 December 2018 and 2017, the Group and the Parent Company of the Group have established allowances for impairment of the carrying amount of loans and receivables, which can be disclosed as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018 EUR** | **2017 EUR** | **2018 EUR** | **2017 EUR** |
| Allowances for trade accounts receivable (please see Note 9) | 95 803 | 312 986 | 95 803 | 6 726 |
| Allowances for loans to subsidiaries (please see Note 33 (a)) | - | - | 79 565 549 | - |
| Allowances for trade and other receivables from subsidiaries (please see Note 33 (c)) | - | - | 1 543 338 | - |
| **Total** | **95 803** | **312 986** | **81 204 690** | **6 726** |

***Movements in the allowance for impairment in respect of trade and other receivables and contract assets***

The movement in the allowance for impairment in respect of trade and other receivables and contract assets during the reporting period was as follows.

**Group**

| | EUR |
|---|---|
| Balance at 1 January 2018 | 312 986 |
| Charge for the year | 64 961 |
| Amounts written off | (283 020) |
| Net remeasurement of loss allowance | - |
| Effect of movements in exchange rates | 873 |
| **Balance at 31 December 2018** | **95 803** |

**Company**

| | EUR |
|---|---|
| Balance at 1 January 2018 | 6 726 |
| Charge for the year (please see Notes 9 and 33) | 81 197 964 |
| Amounts written off | - |
| Net remeasurement of loss allowance | - |
| **Balance at 31 December 2018** | **81 204 690** |

The credit risk on cash and cash equivalents is limited because the counterparties are banks with adequate credit history.

***Loans issued***

Loans issued by the Company include only loans issued to related parties (refer to Note 33 for more details).

The Group monitors changes in credit risk by regularly reviewing financial statements of debtors, external ratings if they are available.

The exposure to credit risk for loans issued and measured at amortised cost at the reporting date by geographic region was as follows.

| | 31.12.2018 | 01.01.2018 |
|---|---|---|
| North America | 79 565 549 | 30 358 012 |
| Total | **79 565 549** | **30 358 012** |

As at 31 December 2018, 100% impairment allowances for the above loan amount are recognized (please see Note 33).

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with adequate credit history.

***Guarantees***

As at 31 December 2018 and as at 31 December 2017, the Parent Company has issued guarantees to secure the liabilities of P-D Valmiera Glass USA Corporation.

The Company monitors changes in credit risk by regularly reviewing financial statements of the guarantee beneficiaries.

*Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risk damage to the Group's reputation.

In order to maintain sufficient liquidity level, the Company uses various financial instruments such as long-term and short-term financing of banks, shareholder loans, supplier financing.

Starting form 2018, the Company uses a liquidity planning tool.

In order to restructure its short-term liabilities, in June 2019 P-D Valmiera Glass USA Corporation filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court and the Company initiate the legal protection plan (LPP) (please also see Note 35).

Repayment terms of financial liabilities are following:

**Group**

| **31.12.2018** | **Less than 6 months** | **6-12 months** | **From 1-2 years** | **From 2-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **EUR** | | | | | | |
| Borrowings and finance lease | 19 720 620 | 11 430 226 | 13 703 025 | 2 651 940 | 46 163 626 | **93 669 437** |
| Interest payables | 1 686 976 | 1 515 831 | 2 563 199 | 7 380 738 | 411 970 | **13 558 714** |
| Trade accounts payable and other liabilities | 43 740 118 | - | - | - | - | **43 740 118** |
| **Total EUR** | **65 147 716** | **12 946 057** | **16 266 224** | **10 032 678** | **46 575 596** | **150 968 269** |

| **31.12.2017** | **Less than 6 months** | **6-12 months** | **From 1-2 years** | **From 2-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **EUR** | | | | | | |
| Borrowings and finance lease | 83 967 509 | 70 182 | 140 364 | 2 128 134 | 1 925 042 | **88 231 231** |
| Interest payable | 136 056 | 197 367 | 313 773 | 506 696 | 198 136 | **1 352 028** |
| Trade accounts payable and other liabilities | 41 213 874 | **-** | **-** | **-** | **-** | **41 213 874** |
| **Total EUR** | **125 317 439** | **267 549** | **454 137** | **2 634 830** | **2 123 178** | **130 797 133** |

**Company:**

| **31.12.2018** | **Less than 6 months** | **6-12 months** | **From 1-2 years** | **From 2-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **EUR** | | | | | | |
| Borrowings and finance lease | 11 786 912 | 15 732 632 | 11 900 312 | 2 221 751 | 49 658 959 | **91 300 566** |
| Interest payable | 1 635 766 | 1 512 996 | 2 541 118 | 7 357 020 | 402 104 | **13 449 004** |
| Trade accounts payable and other liabilities | 31 707 072 | - | - | - | - | **31 707 072** |
| **Total EUR** | **45 129 750** | **17 245 628** | **14 441 430** | **9 578 771** | **50 061 063** | **136 456 642** |

| 31.12.2017 | Less than 6 months | 6-12 months | From 1-2 years | From 2-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **EUR** | | | | | | |
| Borrowings and finance lease | 82 971 882 | - | 4 372 589 | - | 891 692 | **88 236 163** |
| Interest payable | 123 891 | 132 557 | 259 729 | 467 400 | 181 767 | **1 165 344** |
| Trade accounts payable and other liabilities | 25 233 866 | - | - | - | - | **25 233 866** |
| **Total EUR** | **108 329 639** | **132 557** | **4 632 318** | **467 400** | **1 073 459** | **114 635 373** |

### Capital management

The capital structure of the Group consists of borrowings, which are disclosed in Note 14, 16 and 33(b), and items presented within equity in the statement of financial position. The Group's board manage the Group's capital structure and make adjustments to it in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis.

| | Group | | Company | |
|---|---|---|---|---|
| | **31.12.2018 EUR** | **31.12.2017 EUR** | **31.12.2018 EUR** | **31.12.2017 EUR** |
| Borrowings and finance lease obligations | 93 669 437 | 88 231 231 | 91 300 566 | 88 236 163 |
| Cash and cash equivalents | (349 477) | (2 633 591) | (60 455) | (304 401) |
| **Net debt** | **93 319 960** | **85 597 640** | **91 240 111** | **87 931 762** |
| **Equity** | **(43 292 343)** | **65 224 247** | **(33 278 225)** | **58 847 669** |
| **Debt to equity** | **-216%** | **131%** | **-274%** | **149%** |

In year 2018, the capital structure of the Company and the Group has been negatively affected by the weak operating and financial performance of P-D Valmiera Glass USA Corporation, as disclosed in in Note 5.

In 2018, the Company recognized 100% impairment allowances for its investments, loans and receivables from P-D Valmiera Glass USA Corporation (please see Notes 5 and 33).

On Group level, 100% impairment allowances have been recognized for the carrying amount of tangible and intangible fixed assets of P-D Valmiera Glass USA Corporation (please see Note 6).

In order to improve the Company's and Group's capital structure, in 2019 the Company has attracted additional loan financing (please also see Note 35), and has hired an M&A advisor to attract additional equity investment in 2020 (please also see Note 37).

## 35. CONTINGENT LIABILITIES

1. On December 12, 2014 the Company concluded a Guarantee facility agreement with AS SEB Bank under which AS SEB Bank issued a guarantee letter to Goldman Sachs International, i.e. SEB undertook to pay Goldman Sachs International in the event of failure by the Company to perform its obligations under the precious commodities lease agreement, concluded on 15 April 2015. At the end of the reporting period, the guaranty amount was USD 5 200 000 (EUR 4 541 485). On 1 July 2019 SEB made a payment of USD 5 549 184 (EUR 4 846 449) under this guarantee undertaking to Goldman Sachs International, who unilaterally terminated the precious commodities lease agreement. As a result of making the payment under the guarantee, SEB has acquired a claim against the Company in the total amount of USD 5 549 184 (EUR 4 846 449). Based on agreement with AS SEB Bank, the claim has been included in the non-current loan amount at the date of preparation of LPP plan, and is repayable in accordance with the approved LPP plan and agreement with the bank (please see Note 37 Subsequent events). Following these events the Company has acquired the precious metal stock, which was previously leased from Goldman Sachs International. The Company management considers these events as material non-adjusting and continues to disclose the exposures resulting from Guarantee facility agreement among contingent liabilities as at 31 December 2018.

2. On 4 April 2018, the Company issued a guarantee in the amount of USD 3 000 000 (EUR 2 620 087) with respect to obligations by the P-D Valmiera Glass USA Corporation to perform under the Credit Line Agreement entered into between the P-D Valmiera Glass USA Corporation and LBBW Bank New-York branch on 2 April 2018. As disclosed in Note 5 Investments in subsidiaries and goodwill, on 10 June 2019, Company's guarantee to LBBW Bank was called, when LBBW Bank demanded repayment by the Company of the principal amount of the loan, together with accrued interest, in the total amount of USD 3 013 148 (EUR 2 693 438). This event triggered the Company to commence the Legal Protection Proceedings (LPP) as described in Note 36 Subsequent events. According to the agreement with LBBW Bank, these liabilities are repayable in accordance with the approved LPP plan and loan agreement. Considering the financial results of P-D Valmiera Glass USA Corporation in year 2018 (please see Note 5), the Company has recognized accruals for guarantee obligations in the amount of EUR 2 620 087 (please see Note 19) thus treating the default on guarantee as an adjusting event. Liabilities of P-D Valmiera Glass USA Corporation to LBBW Bank continue to be recognized in the consolidated financial statements of the Group, and the accrual for guarantee credit risk is recognized only in the separate financial statements of the Company as at 31 December 2018.

3. On 22 June 2017, the Company issued a letter of guarantee for the benefit of US commodities trader J.ARON & COMPANY as a surety in relation to any loss that may be incurred by reason of obligations continuing to be outstanding between the P-D Valmiera Glass USA Corporation and J.ARON & COMPANY related to the lease of certain platinum and rhodium commodities. The maximum amount covered by the guarantee is USD 2 500 000 (EUR 2 183 406). The guarantee is irrevocable, i.e. remains in force as long as P-D Valmiera Glass USA Corporation continues to use precious commodities belonging to J.ARON & COMPANY and/or continues to be liable in relation to J.ARON & COMPANY with respect to any obligations. AS SEB Bank and AS Danske Bank have undertaken to be liable in equal amounts with respect to the indebtedness arising from the performance guarantee obligations under the specified lease agreement in the amount of USD 1 500 000 (EUR 1 310 044).

On 26 August 2019, AS SEB Bank satisfied the demand to pay guarantee invoked by J.ARON & COMPANY with respect to the lease agreement and paid USD 750 000 (EUR 665 022) toward discharge of its undertaking. Likewise, on 30 August 2019, J.ARON & COMPANY notified A/S Danske Bank of its obligation to satisfy claims based on the letter of credit in the amount of further USD 750 000 (EUR 665 022).

Based on agreement with AS SEB Bank and Danske Bank A/S, the bank claims to the Company have been included in the non-current loan amount at the date of preparation of LPP plan and are repayable in accordance with the approved LPP plan and agreement with the banks. The Company management considers these events as material non-adjusting and continues to disclose the exposures resulting from issued guarantee as contingent liabilities as at 31 December 2018.

P-D Valmiera Glass USA Corporation continues to lease the platinum and rhodium commodities from J.ARON & COMPANY, and discard its payment obligations in accordance with the lease agreement. No further claims of J.ARON & COMPANY have been received until the date of the issue of these financial statements.

4. The Company and the Group have entered into a number of operating lease agreements. The operating lease commitments can be disclosed as follows:

**Company**

| | **Short-term** | **Long-term** | | **Total** |
|---|---|---|---|---|
| | **>1 year** | **2-5 years** | **5< years** | |
| Land | 24 697 | 98 790 | 98 790 | **222 277** |
| Machinery and equipment | 213 396 | 704 684 | - | **918 080** |
| Precious metals | 135 371 | 19 844 | - | **155 214** |
| Other | 17 800 | 57 600 | 4 800 | **80 200** |
| **Total** | **391 264** | **880 918** | **103 590** | **1 375 771** |

**Group**

| | Short-term >1 year | Long-term 2-5 years | 5< years | Total |
|---|---|---|---|---|
| Land | 54 601 | 98 790 | 98 790 | **252 181** |
| Machinery and equipment | 277 600 | 864 352 | 16 429 | **1 158 381** |
| Precious metals | 135 371 | 19 844 | - | **155 214** |
| Other | 116 667 | 142 815 | 4 800 | **264 282** |
| **Total** | **584 239** | **1 125 801** | **120 019** | **1 830 058** |

## 36. SUBSEQUENT EVENTS

As outlined in Note 5 Investments in subsidiaries and goodwill and elsewhere in these financial statements, the Group continued to be loss-making in 2019, with P-D Valmiera Glass USA Corporation effectively consuming operational cash from other parts of the Group. This affected overall Group liquidity.
In January 2019, the Company and AS SEB Bank and Danske Bank AS agreed to bring forward the contracted long-term loan repayment schedule and postpone loan principal repayments until July 2019.

In January 2019, in accordance with the agreement with AS SEB Banka and Danske Bank A/S, Mr. John Post (Lamtec Corp.) granted a loan of USD 6 000 000 to P-D Valmiera Glass USA Corporation, and P-D Management Industries Technologies GmbH and Mr. Heinz-Jürgen Preiss-Daimler granted EUR 5 000 000 and EUR 1 500 000 respectively to the Company.

After the situation in January and February 2019 was stabilized by a change of management in the US and the provision of additional funds by the shareholders, P-D Valmiera Glass USA Corporation moved back into a continuous downward trend from March 2019. The countermeasures taken by management, such as the reduction of production output, were unable to stop this trend or even intensified it.

From May 2019, the US subsidiary could no longer be financed by the Latvian parent company without risking significant damage to the European companies. Accordingly, in May 2019, the Company and Valmiera Glass UK Limited discontinued their financial support to P-D Valmiera Glass USA Corporation.

As stated in Notes 5 and 35, the call of the Company's guarantee with respect to P-D Valmiera Glass USA Corporation loan from LBBW Bank became the triggering event for further actions undertaken by both the Company and its US subsidiary aimed to protect the Group sustainable operations and the recoverable assets.

On 17 June 2019, P-D Valmiera Glass USA Corporation filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court for the Northern District of Georgia and stopped its Phase 2 Fiberglass furnace operation. On 18 June 2019, Vidzeme District Court of the Republic of Latvia passed a decision to initiate the legal protection plan (LPP) of the Parent Company.
As the result of Phase 2 plant shutdown, P-D Valmiera Glass USA Corporation did not fulfil the terms of Phase 2 Community Grant Payment (please see Note 21). On 29 July 2019, the City of Dublin and County of Laurens Development Authority claimed repayment of the grant in the amount of USD 1 000 000 (EUR 873 363)

Please refer to Note 35 for the summary of liabilities assumed by the Company as a result of breaches on certain guarantee agreements during 2019.

In September 2019, A/S Danske Bank and AS SEB Bank terminated the concluded loan agreements with the Company (please refer to Note 14 Borrowings from credit institutions). On September 16, 2019 the Company concluded an agreement with A/S Danske Bank and AS SEB Bank, which provides for partial principal debt repayment during the LPP, payments for A/S Danske Bank and AS SEB Bank for the restriction of its rights during the LPP and other actions to improve Company`s financial position.

*Implementation of legal protection proceedings (LPP) of the Group's Parent Company*

On October 18, 2019 the Vidzemes District Court approved the LPP Plan of the Parent Company of the Group. The Company's total liabilities to creditors, which shall be settled within the framework of the LPP Plan, can be specified as follows:

| | EUR |
|---|---|
| Secured creditors | 91 046 242 |
| Third party unsecured creditors | 7 875 563 |
| Related party unsecured creditors | 19 411 304 |
| **Total** | **118 333 109** |

LPP implementation period is two years from 18 October 2019 through 19 October 2021. In accordance with Appendix 3 to the approved LPP Plan (Schedule for Satisfying Creditor Claims), during the period the Company shall settle its liabilities in the following amounts (with remaining liabilities from above table to be settled thereafter):

| | EUR |
|---|---|
| Secured creditors | 45 500 000 |
| Third party unsecured creditors | 6 528 844 |
| Related party unsecured creditors | 344 297 |
| **Total** | **52 373 141** |

The above amounts do not include liabilities, which will be incurred during the LPP implementation period. Such liabilities shall be settled using the Company's cash flows, which will be generated during the period. Based on estimates, during the LPP period the Company's cash receipts and expenditures will amount to EUR 206 403 940 and EUR 185 890 656, respectively. In addition, first and foremost, according to the Plan, the Company is expected to attract equity and/ or loan financing in the amount exceeding EUR 40 000 000 in order to settle its liabilities to the secured creditors in the amount of EUR 35 000 000 and secure EUR 5 000 000 working capital and planned capital expenditure financing until 31 March 2020. The Company has hired a M&A consultant to attract equity investors. The Company and its existing shareholders are in negotiation process with a number of prospective equity investors and senior and junior loan providers. The management of the company believes that the required amount of financing will be attracted in accordance with the LPP plan.

Settlement of liabilities to related party unsecured creditors (except liabilities to P-D Refractories CZ a.s. in the amount of EUR 344 297) is suspended until complete implementation of the LPP Plan.

For more detailed information, a scanned copy of the approved LPP Plan is available: https://www.nasdaqbaltic.com/statistics/en/instrument/LV0000100485/company?date=2019-11-15

In the period from 18 October 2019 through the date of signing of these financial statements, the Company fulfilled its liabilities to creditors in conformity with the approved LPP Plan and settled liabilities in the following amounts:

| | October 2019 | November 2019 |
|---|---|---|
| Secured creditors, EUR | 351 423 | 362 804 |
| Third party unsecured creditors, EUR | 207 413 | 207 413 |
| Related party unsecured creditors, EUR | 12 696 | 12 696 |
| Third party unsecured creditors, USD | 72 168 | 72 168 |
| Third party unsecured creditors, CHF | 71 | 71 |
| Taxes, EUR | 146 197 | 146 773 |

*The Group's financial results in year 2019*

In the 9-month period of 2019, the Group companies in Europe have delivered good operating and financial results. The Group's Parent Company operates at full capacity, and it's 9-month EBITDA (calculated as profit/ (loss) from operations + depreciation and amortisation) is on the budgeted level. The Group's subsidiary in the UK, Valmiera Glass UK Limited, exceeds the planned results on both EBITDA and net profit level. In the second half of 2019, the financial results of P-D Valmiera Glass USA Corporation are improving and the company is set to reach neutral operating cash flow by the end of year 2019.

Please see a summary of the financial results of the Group for 9 months of 2019 below (all amounts in EUR thousand):

| | Valmiera Glass | Valmiera Glass UK Limited | P-D Valmiera Glass USA Corporation | Consolidated |
|---|---|---|---|---|
| Total sales | 71 754 | 18 814 | 20 246 | 99 139 |
| EBITDA | 13 545 | 2 651 | (12 253) | 4 008 |
| EBIT | 6 267 | 2 316 | (12 485) | (3 837) |
| Net result | 2 843 | 2 051 | (11 053) | (6 095) |

For more detailed information on the 9-month results of the Group, please visit: https://www.nasdaqbaltic.com/statistics/en/instrument/LV0000100485/reports?date=2019-11-15

The Group's Parent Company continues to invest and develop of its production capacity. On 1 November 2019 the Company started cooling and emptying high silica oxide content glass melting furnace No. 3.0 in order to stop the furnace and begin the scheduled reconstruction. In December 2019 production of glass fibre will gradually resume. It is planned, that reconstruction of furnace will result in up to 30% increase in the production capacity of the furnace, which is expected to have a positive impact on availability of high silica oxide content glass and its products. Full capacity of the glass melting furnace is due to be reached in the first quarter of 2020.

### 37. CORRECTION OF ERRORS

Based on decision from March 2018, the Company paid employee bonuses for performance in year 2017 in the amount of EUR 222 427 for year. As at 31 Dec 2017 liability for the bonuses has not been accrued.

As at 30 September 2018, the Company recalculated standard cost at which finished production and work in progress are capitalized at stock. The previous standard cost value has been measured as at 31 Dec 2015. The new standard cost measured impact on value of Work in progress and Finished good as at 31 Dec 2017 is EUR 734 000 and EUR 183 000, respectively. There is no impact on stock value as at 1 January 2017.

For year 2017, the Company presented interest expense for loans from credit institutions net of interest re-charge to subsidiaries. It has been re-evaluated, that the Company is not acting as agent in this case, because the Company is responsible for loan liabilities regardless whether these will be collected from the subsidiaries. Presentation of interest income and interest income has been restated.

Until year 2017, the Company had applied erroneous vacation pay accrual calculation principles. As at 31 December 2015, 2016 and 2017, the vacation pay accruals should be increased by EUR 684 178, EUR 750 219 and EUR 773 846, respectively. Impact on the result for year 2016 and 2017 amount to EUR 66 041 and EUR 23 627, respectively.

As at 31 December 2017, in the financial statements of the Company and the Group, the balance of other receivables contained manufacturing plant construction costs amounting to EUR 2 141 877 to be recharged by the Group's Parent company to P-D Valmiera Glass USA Corporation. As the result of the adjustment in the Company's separate financial statements as at 31 December 2017, the balance of other receivables was reduced and the balance of receivables from subsidiaries was increased by EUR 2 141 877. As the result of the adjustment in the Group's consolidated financial statements as at 31 December 2017, the balance of other receivables was reduced and the balance of construction in progress was increased by EUR 2 141 877.

The impact of the correction of errors can be disclosed as follows:

Statement of financial position

| | Notes | Group | | |
|---|---|---|---|---|
| | | **Previously reported** | **Adjustments** | **Restated** |
| **31 December 2016** | | **EUR** | **EUR** | **EUR** |
| **LIABILITIES** | | | | |
| Accrued Liabilities | | 2 104 964 | 750 219 | 2 855 183 |
| Other | | 83 867 568 | - | 83 867 387 |
| **TOTAL LIABILITIES** | | **85 972 532** | **750 219** | **86 722 750** |

| | | | |
|---|---|---|---|
| **EQUITY** | | | |
| Profit/(loss) brought forward | 19 237 518 | (684 178) | 18 553 340 |
| Profit for the reporting period | 4 806 954 | (66 041) | 4 740 913 |
| Other | 30 845 797 | - | 30 845 797 |
| **TOTAL EQUITY** | **54 890 268** | **(750 219)** | **54 140 050** |
| **TOTAL EQUITY AND LIABILITIES** | **140 862 800** | **-** | **140 862 800** |

| | **Notes** | **Group** | | |
|---|---|---|---|---|
| | | **Previously reported** | **Adjustments** | **Restated** |
| **31 December 2017** | | **EUR** | **EUR** | **EUR** |
| **ASSETS** | | | | |
| Construction in progress | | 69 258 750 | 2 141 877 | 71 400 627 |
| Finished goods | | 12 702 827 | (183 000) | 12 519 827 |
| Work in progress | | 5 110 754 | (734 000) | 4 376 754 |
| Other receivables | | 4 311 953 | (2 141 877) | 2 170 076 |
| Other | | 115 961 706 | - | 115 961 706 |
| **TOTAL ASSETS** | | **207 345 990** | **(917 000)** | **206 428 990** |
| **LIABILITIES** | | | | |
| Accrued Liabilities | | 2 073 179 | 996 273 | 3 069 452 |
| Other | | 138 135 292 | - | 138 135 292 |
| **TOTAL LIABILITIES** | | **140 208 471** | **996 273** | **141 204 744** |
| **EQUITY** | | | | |
| Profit for the reporting period | | 8 216 113 | (1 163 054) | 7 053 059 |
| Other | | 58 921 407 | (750 219) | 58 171 188 |
| **TOTAL EQUITY** | | **67 137 520** | **(1 913 273)** | **65 224 247** |
| **TOTAL EQUITY AND LIABILITIES** | | **207 345 991** | **(917 000)** | **206 428 991** |

**Statement of profit or loss and OCI**

| | Notes | Group | | |
|---|---|---|---|---|
| | | Previously reported | Adjustments | Restated |
| **For year ended 31 December 2016** | | **EUR** | **EUR** | **EUR** |
| Personnel expenses | | (26 682 389) | (66 041) | (26 748 430) |
| Other, net | | 31 451 642 | - | 31 451 642 |
| **PROFIT/(LOSS)** | | **4 769 253** | **(66 041)** | **4 703 212** |
| **Earnings per share** | | 0.2011 | | 0.1983 |

| | Notes | Group | | |
|---|---|---|---|---|
| | | Previously reported | Adjustments | Restated |
| **For year ended 31 December 2017** | | **EUR** | **EUR** | **EUR** |
| Raw materials and consumables | | (62 292 671) | (917 000) | (63 209 671) |
| Personnel expenses | | (28 395 270) | (246 054) | (28 641 324) |
| Interest and similar income | | 320 541 | - | 320 541 |
| Interest and similar expense | | (1 533 639) | - | (1 533 639) |
| Other, net | | 100 542 121 | - | 100 542 121 |
| **PROFIT/(LOSS)** | | **8 641 082** | **(1 163 054)** | **7 478 028** |
| **Earnings per share** | | 0.3437 | | 0.2951 |

**Statement of financial position**

| | Notes | Company | | |
|---|---|---|---|---|
| | | **Previously reported** | **Adjustments** | **Restated** |
| **31 December 2016** | | **EUR** | **EUR** | **EUR** |
| **LIABILITIES** | | | | |
| Accrued liabilities | | 1 419 836 | 750 219 | 2 170 055 |
| Other | | 73 658 462 | - | 73 658 462 |
| **TOTAL LIABILITIES** | | **75 078 298** | **750 219** | **75 828 517** |
| **EQUITY** | | | | |
| Profit/(loss) brought forward | | 18 894 565 | (684 178) | 18 210 387 |
| Profit for the year | | 2 439 974 | (66 041) | 2 373 933 |
| Other | | 34 011 196 | - | 34 011 196 |
| **TOTAL EQUITY** | | **55 345 735** | **(750 219)** | **54 595 516** |
| **TOTAL EQUITY AND LIABILITIES** | | **130 424 033** | **-** | **130 424 033** |

| | Notes | Company | | |
|---|---|---|---|---|
| | | Previously reported | Adjustments | Restated |
| **31 December 2017** | | **EUR** | **EUR** | **EUR** |
| **ASSETS** | | | | |
| Finished goods | | 5 557 952 | (183 000) | 5 374 952 |
| Work in progress | | 4 662 723 | (734 000) | 3 928 723 |
| Receivables from subsidiaries | | 23 649 592 | 2 141 877 | 25 791 469 |
| Other receivables | | 4 129 619 | (2 141 877) | 1 987 742 |
| Other | | 138 452 287 | - | 138 452 287 |
| **TOTAL ASSETS** | | **176 452 173** | **(917 000)** | **175 535 173** |
| **LIABILITIES** | | | | |
| Accrued liabilities | | 1 422 452 | 996 273 | 2 418 725 |
| Other | | 114 268 780 | - | 115 042 626 |
| **TOTAL LIABILITIES** | | **115 691 232** | **996 273** | **116 687 505** |
| **EQUITY** | | | | |
| Profit for the year | | 5 415 207 | (1 163 054) | 4 252 153 |
| Other | | 55 345 734 | (750 219) | 54 595 515 |
| **TOTAL EQUITY** | | **60 760 941** | **(1 913 273)** | **58 847 668** |
| **TOTAL EQUITY AND LIABILITIES** | | **176 452 173** | **(917 000)** | **175 535 173** |

**Statement of profit or loss and OCI**

| | Notes | Company | | |
|---|---|---|---|---|
| | | Previously reported | Adjustments | Restated |
| **For year ended 31 December 2016** | | **EUR** | **EUR** | **EUR** |
| Personnel expenses | | (19 640 817) | (66 041) | (19 706 858) |
| Other, net | | 22 080 791 | - | 22 080 791 |
| **PROFIT/(LOSS)** | | **2 439 974** | **(66 041)** | **2 373 933** |
| **Earnings per share** | | 0.1021 | | 0.0993 |

| | Notes | Company | | |
|---|---|---|---|---|
| | | Previously reported | Adjustments | Restated |
| **For year ended 31 December 2017** | | **EUR** | **EUR** | **EUR** |
| Raw materials and consumables | | (53 132 089) | (917 000) | (54 049 089) |
| Personnel expenses | | (20 046 966) | (246 054) | (20 293 020) |
| Interest and similar income | | 311 216 | 318 377 | 629 594 |
| Interest and similar expense | | (2 545 735) | (318 377) | (2 864 113) |
| Other | | 80 828 781 | - | 80 828 781 |
| **PROFIT/(LOSS)** | | **5 415 207** | **(1 163 054)** | **4 252 153** |
| **Earnings per share** | | 0.2265 | | 0.1779 |

There was not impact on the Group’s and Company’s cash flows for year 2017.

## 38. GOING CONCERN

During the reporting year and up to the date of issuance of these financial statements the Company and the Group experienced significant financial difficulties. Despite the good earnings situation of the two European companies (the Company and the UK subsidiary) and the associated good cash flows, the Group was unable to finance the commissioning of the large-scale investment in the USA from own funds.

The management of the Group has taken a number of bold steps to improve liquidity situation of the Group companies and bring the US operations to a sustainable level, as outlined in Note 37 Subsequent events. Nevertheless, such measures were unsuccessful and on 17 June 2019 P-D Valmiera Glass USA Corporation filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court for the Northern District of Georgia. Likewise, on 18 June 2019, Vidzeme District Court of the Republic of Latvia passed a decision to initiate the legal protection plan (LPP) of the Company.

Both LPP and Chapter 11 proceedings obliges the involved parties to participate in the entity's liability restructuring to fully restore its solvency.

As disclosed in Note 37, the LPP Plan was developed by the Company and has been approved by all secured creditors and a great majority of unsecured creditors and by the court.

As disclosed in Note 5, the decision of the United States Bankruptcy Court on the approval of the plan of reorganization of P-D Valmiera Glass USA Corporation is expected in January 2020.

The Group operating performance has improved during the second half of 2019. Until the date of signing of these financial statements, the Company has been operating at full capacity without restrictions and sales orders are above average. The Group's subsidiary in the UK, Valmiera Glass UK Limited, exceeds the planned results. in the light of the improving financial results during the second half of 2019, an option to continue sustainable operations (as opposed to asset sale and/or wind down) of P-D Valmiera Glass USA Corporation is under consideration.

The management of the Company is confident that the Company and the Group will achieve investment grade status after 24 months.

The Company has hired and M&A advisor to attract new equity investors. There is a significant market interest in the Group regarding both the provision of new equity and senior debt.

Nevertheless, the future success of the Company and the Group is dependent, among other, on the following factors:

- Ability of the Company to maintain and develop successful operating performance and achieve the cash flows as anticipated in the LPP plan, and
- Attraction by the Company of equity and/ or loan financing in the amount exceeding EUR 40 000 000 in order to settle its liabilities to the secured creditors in the amount of EUR 35 000 000 until 31 March 2020;

Having considered the facts and circumstances laid out in the preceding paragraphs, management have prepared these consolidated and separate financial statements on the going concern basis, and they therefore do not include any adjustments that would have been required had the Group and the Company not applied the going concern basis of accounting. Nevertheless, the management acknowledges that going concern judgements were made placing significant reliance on the positive outcomes of future uncertain events and, therefore, a material uncertainty exists that may cast significant doubt on the Company's and the Group's ability to continue as a going concern.