



**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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AS VALMIERAS STIKLA ŠĶIEDRA
GENERAL INFORMATION ABOUT THE COMPANY AND THE GROUP

NAME OF THE PARENT COMPANY	Valmieras stikla šķiedra
LEGAL STATUS	Joint stock company
REGISTRATION NUMBER, PLACE AND DATE	No. 40003031676 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 Reg. No 2189095 (100%) Sherborne, Dorset DT9 3RB United Kingdom P-D Valmiera Glass USA Corporation, Reg. No 14036662 (52.21%) 168 Willie Paul Parkway, Dublin, GA 31021, United States of America Valmiera Glass USA Trading Corporation, Reg. No 14036664 (100%) 168 Willie Paulk Parkway, Dublin, GA 31021, United States of America
THE BOARD	Chairman of the Board: Stefan Jugel (from 29.05.2018.) Andre Heinz Schwiontek (till 28.05.2018.) Members of the Board: Ģirts Vēveris (from 29.05.2018.) Ingo Bleier (from 01.08.2019.) Stefan Jugel (till 28.05.2018.) Andre Heinz Schwiontek (from 29.05.2018. and until 01.08.2019.) Doloresa Volkopa (until 01.06.2019.)
THE COUNCIL	Chairman of the Council: Heinz-Jürgen Preiss-Daimler Members of the Council: Stefan Alexander Preiss-Daimler (from 25.05.2018.) Jöran Pfuhl Andris Oskars Brutāns Ainārs Ozols (from 28.06.2019.) Theis Klauberg (from 28.06.2019.) Hans Peter Cordts (till 31.12.2018.) 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 Licence Nr.55 Vesetas street 7, Riga, 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 SiO₂-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 SiO₂ 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.

AS VALMIERAS STIKLA ŠKIEDRA MANAGEMENT REPORT

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	<i>Net profit attributable to the shareholders of the Company / Average Total assets for the period</i>
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.	<i>Net profit attributable to the shareholders of the Company / Average Total equity for the period</i>
ROCE, %: Measures a company's profitability and the efficiency with which its capital is used.	<i>EBIT/Total assets-current liabilities</i>
EBITDA margin, %: Assessment of a firm's operating profitability as a percentage of its total revenue.	<i>EBITDA / Net sales</i>
EBIT margin/operating profit margin, %: operating earnings over operating sales.	<i>EBIT / Net sales</i>
Net profit margin, %: The net profit margin is equal to how much net income or profit is generated as a percentage of revenue.	<i>Net profit / Net sales</i>
Earnings per share (EUR): The portion of a company's profit allocated to each share of common stock.	<i>Net profit attributable to the shareholders of the Company/ weighted average common shares outstanding</i>
Current ratio: The ability of a party to use current assets to settle current liabilities.	<i>Current assets / Current liabilities</i>

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 Lagzdīns, 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 data¹):



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

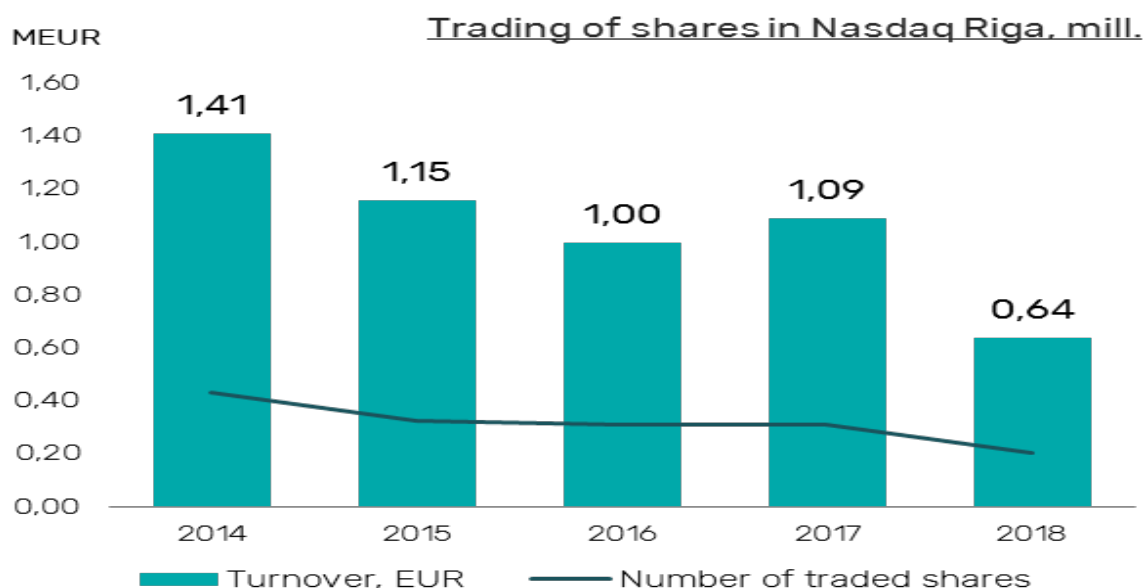
The price of Company's shares in 2018 compared to OMX Baltic Benchmark GI and OMX Riga indexes (Nasdaq Riga data²):



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 data³):

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.

AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF FINANCIAL POSITION OF THE GROUP

	Notes	Group		
		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	871 120	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

AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF FINANCIAL POSITION OF THE GROUP

	Notes	Group		
		31.12.18. EUR	31.12.17. (restated) EUR	31.12.16. (restated) 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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Mārtiņš Blaus, Finance Director

AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME OF THE GROUP
FOR THE YEAR 2018

	Notes	Group		
		2018	2017	2016
		EUR	(restated) EUR	(restated) 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
<i>Attributable to:</i>				
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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AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	Company		
		31.12.18.	31.12.17.	31.12.16.
		EUR	(restated) EUR	(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

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AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	Company		
		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
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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AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME OF THE COMPANY
FOR THE YEAR 2018

	Notes	Company		
		2018	2017	2016
		EUR	(restated) EUR	(restated) 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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AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF CHANGES IN EQUITY OF THE GROUP AND THE COMPANY
FOR THE YEAR 2018

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)

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AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF CHANGES IN EQUITY OF THE GROUP AND THE COMPANY
FOR THE YEAR 2018

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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AS VALMIERAS STIKLA ŠĶIEDRA
STATEMENT OF CASH FLOWS OF THE GROUP AND THE COMPANY
FOR THE YEAR 2018

		Group		Company	
	Notes	2018 EUR	2017 (restated) EUR	2018 EUR	2017 (restated) EUR
Cash flows from operating activities					
Profit/ (loss) before tax		(114 166 900)	6 103 566	(91 968 085)	1 631 238
<i>Adjustments:</i>					
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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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.

1. 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	<p>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.</p> <p>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.</p> <p>Under the Group's standard contract terms, customers have a right of return within 6 months.</p> <p>The customers have a right of refund, early payment discounts and volume bonuses. Please see more details below.</p> <p>The sales contracts do not contain significant financing components.</p>	<p>Revenue is recognised when the goods are delivered in accordance with the sales agreement Incoterms.</p> <p>The Group recognises revenue when or as the performance obligation is satisfied, net of the amount of cash discount expected to be taken.</p> <p>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.</p> <p>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.</p> <p>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.</p>

At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned.

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).

30 to 60-day payment terms apply.

No discounts and bonuses apply.

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.

30 to 60-day payment terms apply.

No discounts and bonuses apply.

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	31.12.2017
	EUR	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)) and trade receivables (EUR 1 543 338, Note 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	Constructio n 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 EUR	Company 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 3 346 487. 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 Vitruan International GmbH)	11.97%	24.52%
P-D Glaseiden 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 – Württemberg. 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.	31.12.16.	31.12.18.	31.12.17.	31.12.16.
		(restated)	(restated)		(restated)	(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. EUR	31.12.17. 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 required to equalise Guaranteed Minimum Pension (GMP) between men and women. In previous year no allowance has been included 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 EUR	2017 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 EUR	2017 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 EUR	2017 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 EUR	2017 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 EUR	2017 EUR	2018 EUR	2017 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 EUR	2017 EUR	2018 EUR	2017 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 EUR	2017 EUR	2018 EUR	2017 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	2018	2017
	EUR	(restated) EUR	EUR	(restated) 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:					TOTAL
	Fixed assets	Provisions	Inventory allowance	Pension liabilities	Tax losses	
	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

Group

Entities controlled by the parties
controlling the Group

Long term finance lease total

31.12.18. EUR	31.12.17. EUR
86 875	86 875
86 875	86 875

Entities controlled by the parties
controlling the Group

Short term finance lease total

-	95 460
-	95 460

Company

Entities controlled by the parties
controlling the Group

Long term finance lease total

86 875	86 875
86 875	86 875

Entities controlled by the parties
controlling the Group

Short term finance lease total

-	95 460
-	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

<u>Company</u>	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 Fiberglass 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

<u>Group</u>	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)
<u>Company</u>	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	
	% rate increase	Impact on statement of profit or loss	% rate increase	Impact on statement of profit or loss
Currency				
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	Total
31.12.2018				
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	Total
31.12.2018				
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		31.12.2017	
	Exchange rate fluctuation	Impact on statement of profit or loss	Exchange rate fluctuation	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

31 December 2018

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

31 December 2018

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	2017	2018	2017
	EUR	EUR	EUR	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 from 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 initiated 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	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	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 >1 year	Long-term 2-5 years	5< years	Total
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 its 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 EUR	Adjustments EUR	Restated EUR
31 December 2016				
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
		EUR	EUR	EUR
31 December 2017				
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 EUR	Adjustments EUR	Restated EUR
31 December 2017			
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 EUR	Adjustments EUR	Restated EUR
For year ended 31 December 2016			
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 EUR	Adjustments EUR	Restated EUR
For year ended 31 December 2017			
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 an 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.



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Independent Auditors' Report

To the shareholders of AS "Valmieras Stikla Šķiedra"

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion on the Consolidated Financial Statements

We were engaged to audit the consolidated financial statements of AS "Valmieras Stikla Šķiedra" ("the Company") and its subsidiaries (together "the Group"), set out on pages 15 to 79 of the accompanying consolidated and separate annual report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018,
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion on the Consolidated Financial Statements* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion on the Consolidated Financial Statements

As stated in Note 5 to the consolidated financial statements, as at 31 December 2018, included in the consolidated financial statements is the financial information of the Group's subsidiary, P-D Valmiera Glass USA Corporation ("VSS USA"). We were not granted access to management and auditors of the subsidiary. The Group's management also instructed that we do not perform any audit procedures to satisfy ourselves regarding the financial information of VSS USA as at and for the year ended 31 December 2018. As a result, other than in respect of the matter described in the third paragraph of this section, we were unable to determine whether any adjustments were necessary in respect of the assets, liabilities, income and expense of VSS USA included in the consolidated financial statements of the Group as at and for the year ended 31 December 2018, and the relevant elements making up the Group's consolidated statements of changes in equity and cash flows for the year ended 31 December 2018.

We also draw attention to Notes 36 and 38, which indicate that the Company and the Group face operational and financial challenges leading to legal protection proceedings ("LPP") initiated in respect of the Company in Latvia in June 2019, with the LPP plan approved by the relevant court on 18 October 2019. In addition, VSS USA ceased its Phase 2 fiberglass furnace operation and filed a voluntary petition for relief under Chapter 11 in the United States Bankruptcy Court. As stated in Note 38, these events or conditions, along with other matters as set forth in that Note, indicate that a material uncertainty exists that may cast significant doubt on the Company's and the Group's ability to continue as a going concern.



Furthermore, as stated in Note 6, the Group recognized impairment losses against the entire stated amount of property, plant and equipment held by VSS USA in the amount of EUR 99 267 536. In our view, in estimating the assets' recoverable amounts management failed to sufficiently consider all reasonably possible scenarios in relation to the said subsidiary's future operations, including the allocation of property, plant and equipment to relevant cash generating units, which resulted in likely unfavourable and material effects on those recoverable amount estimates. It was, however, impracticable for us to quantify the financial effects of this departure from the relevant requirements of International Financial Reporting Standard as adopted by the European Union ("IFRS EU") on the amounts shown as at 31 December 2018 in the consolidated financial statements for property, plant and equipment, deferred taxes, and on the net result for the year then ended.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditors' report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Latvia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the annual shareholders' meeting on 21 September 2018 to audit the consolidated financial statements of AS "Valmieras Stikla Šķiedra" as at and for the year ended 31 December 2018. Our total uninterrupted period of engagement is one year, covering the year ending 31 December 2018.



We confirm that:

- our disclaimer of opinion on consolidated financial statements is consistent with the additional report presented to the Audit Committee of the Group;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia, we have not provided to the Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the Group in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Group and its controlled entities in addition to the audit, which have not been disclosed in the Management Report or in the consolidated financial statements of the Group.

KPMG Baltics AS
Licence No. 55

A handwritten signature in blue ink, appearing to be 'A. Movsisjana', written in a cursive style.

Armine Movsisjana
Latvian Certified Auditor
Certificate No. 178
KPMG Baltics AS
Riga, Latvia
6 December 2019



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Independent Auditors' Report

To the shareholders of AS "Valmieras Stikla Šķiedra"

Report on the Audit of the Separate Financial Statements

Qualified Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of AS "Valmieras Stikla Šķiedra" ("the Company"), set out on pages 15 to 79 of the accompanying Consolidated and Separate Annual Report, which comprise:

- the separate statement of financial position as at 31 December 2018,
- the separate statement of comprehensive income for the year then ended,
- the separate statement of changes in equity for the year then ended,
- the separate statement of cash flows for the year then ended, and
- notes to the separate financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Separate Financial Statements* section of our report, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS EU").

Basis for Qualified Opinion on the Separate Financial Statements

As stated in Notes 5 and 33 to the separate financial statements, as at 31 December 2018, the Company recognized impairment losses against the entire stated amounts of its investment in P-D Valmiera Glass USA Corporation ("VSS USA") and of loans to and receivables from VSS USA, in the gross amounts of EUR 14 680 994 and EUR 81 108 887, respectively. In our view, in estimating the assets' recoverable amounts management failed to sufficiently consider all reasonably possible scenarios in relation to the said subsidiary's future operations, which resulted in likely unfavourable and material effects on those recoverable amount estimates. It was, however, impracticable for us to quantify the financial effects of this departure from the relevant requirements of IFRS EU on the amounts shown as at 31 December 2018 in the separate financial statements for investments in subsidiaries, loans to and receivables from subsidiaries, and on the net result for the year then ended.

In accordance with the 'Law on Audit Services' of the Republic of Latvia, we conducted our audit of the separate financial statements of the Company in accordance with International Standards on Auditing as adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the separate financial statements in the Republic of Latvia. We have also fulfilled our other



professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the separate financial statements.

Material Uncertainty Related to Going Concern

We draw attention to Notes 36 and 38 to the separate financial statements, which indicate that the Company faces operational and financial challenges leading to legal protection proceedings ("LPP") initiated in respect of the Company in Latvia in June 2019. The LPP plan was approved by the Court for the District of Vidzeme on 18 October 2019. As stated in Note 38, these events or conditions, along with other matters as set forth in that Note, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion on the separate financial statements is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion on the Separate Financial Statements* and *Material Uncertainty Related to Going Concern* sections, we have determined the matter described below to be the key audit matter to be communicated in our report.

Revenue recognition

Key audit matter

Net sales of glass fibre products in financial statements as at and for the year ended 31 December 2018: EUR 114 245 million.

We refer to the separate and consolidated financial statements: Note 3 (accounting policy) and Note 22 (financial disclosures).

The Company manufactures and sells glass fibre products, with more than 95% of its sales representing exports to nearly 50 countries in Europe and across the world.

The Company's sales contracts include terms such as, among other things, product quantity to be delivered, relevant pricing conditions and shipping terms. Contractually specified shipping terms may vary depending on factors such as the mode of transport (e.g., by sea, road or air) and where the goods are shipped to (locally, to the European market or

Our response

Our audit procedures in the area included, among other things:

- Assessing of the Company's revenue recognition policy, including considering whether the policy is in accordance with the five-step approach required by the new revenue standard;
- Assessing the design and implementation of key internal controls within the revenue recognition process, including those in respect of three way match of sales order, delivery note and sales invoice.



beyond). The Company applies International Commerce Terms (Incoterms) to clarify when a delivery occurs and therefore to establish the point in time at which the related performance obligation is satisfied and revenue is to be recognized.

The multitude of such terms to be considered in the context of appropriate accounting for revenue transactions, and manual user intervention applied by the Company's accounting personnel in the process of recognizing revenue in the appropriate period, required increased attention in performance of our audit of the separate financial statements. We considered the most significant risk of misstatement of the separate financial statements to exist for transactions occurring in the proximity of the reporting date.

In addition, the new revenue standard, IFRS 15 *Revenue from Contracts with Customers*, which became effective on 1 January 2018, introduced a revised revenue recognition model whose accounting ramifications required our assessment as part of the current year's audit.

Due to the above factors, this area represented a key audit matter in our audit.

- For a sample of individual sales transactions occurring around the reporting date:
 - inspecting underlying sales contracts for understanding of the key terms, including those in respect of the shipping conditions;
 - obtaining from the Company's accounting and sales personnel, evidence to support the appropriate timing of revenue recognition based on the said terms and conditions set out in the sales contracts (including sales invoices and delivery documents);
 - tracing the above evidence to the corresponding accounting (revenue) entries, evaluating the amounts recognized and the timing of revenue recognition, and investigating any inconsistencies.
- For a sample of trade accounts receivable outstanding as at 31 December 2018, obtaining customer confirmations of the balances, and also of the turnover for the year. Where applicable, inquiring of the accounting personnel as to the reasons for any significant differences between the amounts confirmed and the Company's and accounting records;
- Inspecting journal entries posted to revenue accounts focusing on items which we considered unusual, irregular or otherwise associated with increased risk;
- Considering the adequacy and accuracy of the Company's disclosures (Note 3 and Note 22) in respect of revenue and revenue recognition policies.



Reporting on Other Information – Separate Financial Statements

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying Consolidated and Separate Annual Report,
- the Management Report, as set out on pages 4 through 13 of the accompanying Consolidated and Separate Annual Report,
- the Statement on Management's Responsibility, as set out on page 14 of the accompanying Consolidated and Separate Annual Report,
- the Statement of Corporate Governance Report, which the Company has prepared and plans to file with "Nasdaq Riga" together with Consolidated and Separate Annual Report.

Our opinion on the separate financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion on the Separate Financial Statements* section above, the Company recognized impairment losses against the entire stated amounts of its investment in VSS USA and of loans to and receivables therefrom, in the amounts of EUR 14 680 994 and EUR 81 108 887, respectively. In our view, in estimating the assets' recoverable amounts management failed to sufficiently consider all reasonably possible scenarios in relation to the said subsidiary's future operations, which lead to likely unfavourable and material effects on those recoverable amount estimates. We have concluded that the other information is materially misstated for the same reason with respect to the amounts and other items in the Management Report affected by management's failure to properly account for the impairment of the said assets.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the Law of the Republic of Latvia On the Annual Reports and Consolidated Annual Reports.

Based solely on the work required to be undertaken in the course of our audit of separate financial statements, in our opinion:



- the information given in the Management Report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law of the Republic of Latvia On the Annual Reports and Consolidated Annual Reports.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and presentation of the separate financial statements that give a true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.



As part of an audit of the separate financial statements in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the annual shareholders' meeting on 21 September 2018 to audit the separate financial statements of AS "Valmieras Stikla Šķiedra" as at and for the year ended 31 December 2018. Our total uninterrupted period of engagement is 1 year, covering the year ending 31 December 2018.

We confirm that:

- our audit opinion on the separate financial statements is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia, we have not provided to the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the Company in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Company and its controlled entities in addition to the audit, which have not been disclosed in the Management Report or in the separate financial statements of the Company.

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Armine Movsisjana
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 178
Riga, Latvia
6 December 2019